CANADA AND THE LITTLE DRAGONS

Roy A. Matthews

加拿大的小龍

• ESSAYS IN INTERNATIONAL ECONOMICS •

An analysis of Canadian economic
relations with Hong Kong, Taiwan, and
South Korea

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Canada and the "Little Dragons"

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An Analysis of Economic Developments in Hong Kong, Taiwan, and South Korea and the Challenge/Opportunity They Present for Canadian Interests in the 1980s

by

Roy A. Matthews

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Montreal

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In Confucian tradition China is the great dragon, and the smaller Chinese and Chinese-influenced states around its periphery are the little dragons. (One should note, though, that Taiwan — the Republic of China — claims it is in fact the heart of the great dragon, torn from the body in 1949 and ultimately to be replaced.)

In this study the normal practice has been followed of denominating amounts of a general or international relevance in U.S. dollars. However, data from Canadian sources on Canada's trade with Hong Kong, Taiwan, and Korea are shown in Canadian dollars. Local currencies of those three states are used only in measuring developments in their domestic economies that could be distorted by exchange-rate changes if translated into U.S. dollars.

Over the past ten years, the Hong Kong dollar has in fact fluctuated within a narrow range and the New Taiwan dollar has risen very slightly against the U.S. currency (until mid-1981, when it was devalued again by a fraction), but the Korean won was depreciated by substantial amounts. As of the end of 1980, when much of this material was recorded, one U.S. dollar was approximately equivalent to:

5.00 Hong Kong dollars
36.00 New Taiwan dollars
660.00 Korean won

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Foreword

The three newly industrializing countries of East Asia — South Korea, Taiwan, and Hong Kong — have attracted much attention in recent years because of the rapid growth of their economies and the even more rapid expansion of their labour-intensive, light-industrial exports to the industrialized world, including Canada. Their rapid industrialization has been a key factor not only in their economic evolution but also in the evolution of the Western Pacific Rim as a major region of world economic activity and strength.

In his study, Mr. Matthews indicates that over the next two decades the newly industrializing countries of East Asia will tend to become the "new Japans," that owing to their competitive strengths, they will become the producers of many of the goods now being manufactured efficiently and effectively by Japan. And as these states move on to a higher plane of economic activity, they will continue to present Canada with many opportunities and challenges. Being resource-deficient economies dependent on trade for their prosperity, the three East Asian economies will, on the one hand, present opportunities to expand and diversify Canadian commercial relationships. On the other hand, they will continue to increase the challenge of their competitive strength, which already has become a matter of concern to Canada and other industrialized countries.

This study, based on research undertaken by Mr. Matthews when he was on loan to the Institute in 1980 and 1981, is one of several studies that the International Economics Program of the Institute has sponsored to explore the growing economic links connecting Canada to the Western Pacific Rim.

Gordon Robertson
President
April 1983

Avant-propos

Les trois nouveaux pays en voie d'industrialisation de l'Asie de l'Est — la Corée du Sud, Taiwan et Hong Kong — ont beaucoup attiré l'attention depuis quelques années en raison de la croissance rapide de leur économie et de l'expansion encore plus rapide des exportations des produits de leur industrie légère à intensité travail vers le monde industrialisé, y compris le Canada. Leur industrialisation rapide a joué un rôle clé non seulement dans leur évolution économique, mais aussi dans l'évolution des pays de la région occidentale du Pacifique vers le statut de grande région d'activité et de force économiques mondiales.

Dans son étude, M. Matthews indique qu'au cours des deux prochaines décennies, ces nouveaux pays en voie d'industrialisation de l'Asie de l'Est tendront à devenir les « nouveaux Japons » et que, compte tenu de leur force concurrentielle, ils deviendront les producteurs de plusieurs des biens que le Japon fabrique actuellement de manière efficiente et efficace. À mesure que ces pays grimperont les échelons de l'activité économique, ils continueront à offrir au Canada de nombreuses possibilités et maints défis. Pauvres en ressources et dépendantes du commerce pour leur prospérité, les trois économies de l'Asie de l'Est offriront, d'une part, des occasions d'accroître et de diversifier les relations commerciales canadiennes. D'autre part, le défi posé par leur force concurrentielle deviendra de plus en plus pressant; le Canada et les autres pays industrialisés s'en préoccupent d'ailleurs déjà.

Cette étude, fondée sur des recherches effectuées par M. Matthews alors qu'il était détaché à l'Institut en 1980 et 1981, fait partie d'une série d'études commanditées par le programme sur l'économie internationale de l'Institut dans le but d'examiner le resserrement des liens économiques entre le Canada et les pays de la région occidentale du Pacifique.

Gordon Robertson
Président
Avril 1983

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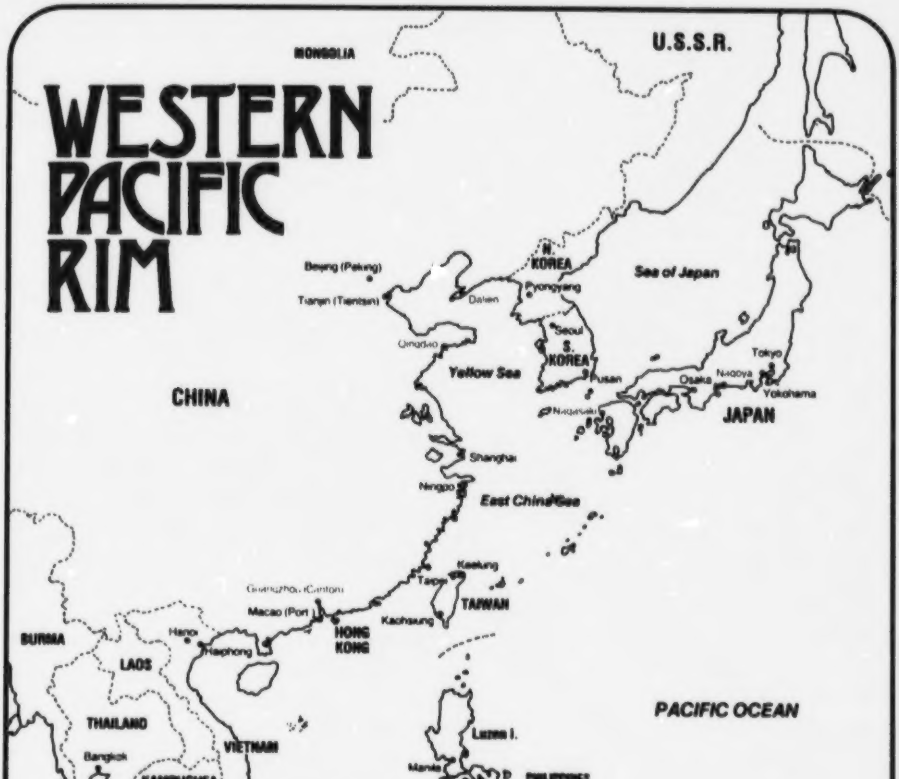
The Author

Roy Matthews has worked for the past ten years on the staff of the Economic Council of Canada, Ottawa. British born and educated (in London and at Cambridge University), he spent a year and a half in the Far East after World War II as a member of the Royal Air Force contingent stationed with the occupation forces in Japan. He emigrated to Canada in 1954.

Mr. Matthews has held positions in industry in London, Toronto, and Montreal, and has been an economist with the Conference Board and the Private Planning Association of Canada (now the C.D. Howe Research Institute). In 1972 he studied several Latin American economies under an award from the International Development Research Centre. His fields of specialization are trade policy, industrial policy, international development, and relationships among the countries of the Pacific Rim.

The main work on this report was undertaken while Mr. Matthews was on leave of absence from the Economic Council in 1980, when he joined the Institute's Ottawa office for four months. He visited the three countries covered in November/December of that year.



WESTERN PACIFIC RIM

MONGOLIA
U.S.S.R.
N. KOREA
Beijing (Peking)
Tianjin (Tientsin)
Dalien
Pyongyang
Sea of Japan
Seoul
S. KOREA
Qingdao
Yellow Sea
Pusan
Tokyo
Osaka
Nagoya
Yokohama
Nagasaki
JAPAN
CHINA
Shanghai
Ningpo
East China Sea
Keelung
Taipei
Guangzhou (Canton)
Macao (Port.)
TAIWAN
Kaohsiung
HONG KONG
BURMA
Hanoi
Haiphong
LAOS
PACIFIC OCEAN
THAILAND
Luzon I.
VIETNAM
Bangkok
Manila
PHILIPPINES
KAMPUCHEA
Gulf of Siam
South China Sea
Kompong Som
Ho Chi Minh City (Saigon)
Mindanao I.
Str. of Malacca
Songkhla
Davao
Kota Kinabalu
Penang
MALAYA
MALAYSIA
BRUNEI
SABAH
Port Kelang
Tawau
Belawan
Kuala Lumpur
Malacca
Kuching
SARAWAK
SINGAPORE
KALIMANTAN
SUMATRA
SULAWESI
Palembang
INDONESIA
WEST IRIAN
Java Sea
Ujung Pandang
PAPUA - NEW GUINEA
Jakarta
Surabaya
JAVA
INDIAN OCEAN
AUSTRALIA

Summary

A lot of attention is being focused nowadays on the competition offered in world markets for manufactured products from countries that are relative newcomers to the industrial scene. Among such states, Hong Kong, Taiwan, and South Korea are the ones that first spring to mind, since they are in fact the origin of the greatest proportion of the relatively low-cost clothing, footwear, sporting goods, electrical and electronic equipment of various kinds, simple machinery, toys and games, tools and household articles, and many other items that are found in our stores. Manufacturers in Europe and North America, who are only beginning to adjust to the import challenge they have experienced in recent years from the Japanese, are looking at these other energetic states with apprehension. Rates of growth in the three economies throughout the 1960s and 1970s were impressive, and all seem to be possessed of technical competence and managerial capabilities that put them on the level of nations far longer established as industrial powers. Although their expansion has faltered in the past few years, all display remarkable resilience.

Less publicity has been given, at least in the popular media that address non-expert audiences in the West, to another side of this phenomenon: the remarkable commercial opportunities that the three East Asian states present to foreign exporters and investors. As their production expands and its range and complexity increase, the requirements of raw materials, specialized production inputs, particular kinds of process capacity, and elements of technological know-how all widen. As their populations become more affluent, consumer demands become more extensive and sophisticated. As their societies undergo transformation to the elaborate type of urban civilization familiar to us in the advanced world, new needs proliferate for infrastructure, for services, for an unending list of "requisites of the good life" such as health care, recreational facilities, and environmental improvement. All of these changes open up major possibilities for foreign business.

The study that follows is an attempt to provide Canadian readers with a brief overview of the three economies, as they have emerged

over the past thirty years or more from virtual underdevelopment to the present dynamic condition. It outlines the main characteristics of each, with special reference to the structural peculiarities of their manufacturing sectors and the patterns of their import and export trade, both globally and with respect to Canada. And it assesses medium- and longer-term prospects by reference to official economic plans and reports designed to plot future expansion. On the basis of this material, the study points to implications for Canadian imports from the three and their potential effect on our own production and employment, as well as identifies the more promising areas for Canadian exports to, and investment in, the territories.

An overall comment on the approach to the analysis is that the three states are quite distinctive in a number of respects, and one cannot treat them as posing exactly the same problems or providing the same openings for outside interests. Moreover, their distinctive features are increasing as their individual development paths reveal advantages or limitations that respective governments and business communities seek to exploit or escape as appears best. Thus, although the impacts on other countries' markets and sources of supply will be much the same in certain regards, in others they will differ sharply and must be considered accordingly.

By and large, the study finds that we may continue to expect to see similar sorts of products forming the bulk of Canadian imports from all of these countries: they will be labour-intensive light manufactures of fairly standard technology such as we have become accustomed to receiving from them. As time goes on, however, the importance of such items — and especially of clothing and footwear — is likely to be gradually reduced. This will be so at least in relative terms and probably in absolute amounts also, as wages in the three countries go up and governments and industrialists recognize the need to concentrate on alternative goods that promise less likelihood of their being undercut in export markets by still newer manufacturing nations with wage levels even lower than theirs. All of them envisage a future in which more skill and knowledge will be incorporated in much of their output, in which greater attention will be paid to styling and design, and in which superior technology is involved both in the processes manufacturers employ and in the products they have to offer.

When it comes to the details, however, the outlook that we have described for the three makes it clear that there will be considerable divergencies in their paths from here forward. Hong Kong will become something of a clothing fashion centre — but at the same time it may contrive to hold a competitive position in lower-priced apparel through access to Chinese labour in the special economic zones immediately outside its border to the north. It will continue to demonstrate great ingenuity in the manufacture of electronic gadgetry, partly with the involvement of foreign firms, using imaginative applications of microprocessors and other such devices but probably not moving far into the elaboration of this technology itself. So far as really new frontiers of activity are concerned, Hong Kong's most acute minds will almost certainly be devoted to commerical endeavours whose products are intangible — to financial schemes and brokerage deals with China, to real estate developments and other ventures around the Pacific area, to shipping and insurance and all manner of service undertakings throughout the Far East and elsewhere.

Taiwan will stay more dependent on conventional industry. As it diversifies, however, it will focus on spheres of manufacturing felt to be at the leading edge of industrial development. Despite its small size and relative lack of capital and technical resources, Taiwan will make a heroic effort to be at the vanguard of the microelectronic revolution — not, it must be stressed, in respect of the most fundamental research or over a wide span of development efforts, but still at a level that permits it to find a very respectable niche in the basic innovation work and subsequent applications. The Taiwanese will in addition, it appears, aim to become an important producer of motor vehicles for export, principally for the Asian market and entirely within the context of world-wide specialization by foreign (probably Japanese) automobile firms. For the time being anyway, the heavy industry now in place in Taiwan will be mainly to support these and other secondary manufacturing pursuits, although that may change if circumstances allow it. In all their enterprises, the Taiwanese can be relied upon to exercise a pragmatic caution, but they will seize the initiative when they feel that they have a chance of success in almost any field.

The outlook for South Korea is in somewhat more doubt because of economic difficulties and political instability. However, assuming the economy can be revitalized and the present relative calm in the body politic maintained, it is clear that the future direction of industrial development will differ sharply from that of Hong Kong and to a lesser extent from that of Taiwan. Admittedly, as in those two economies, Korean policy will encourage a trend away from manufacturing activities that are intensive in the use of unskilled or semi-skilled labour and rather standard technology. In part, the new thrust will parallel Taiwan's venture into very sophisticated electronics and microprocessor systems, with an attempt being made to originate some of the relevant basic hardware in Korea. Other enterprises in areas of superior modern technology will likewise be established. But the Koreans will also emphasize a broader spectrum of industrial pursuits. While the future of the Korean automobile industry is clouded at present, it will undoubtedly remain in being and will most probably become a factor in international trade in vehicles once its immediate problems have been worked out. Despite the many questions now hanging over the Koreans' over-enthusiastic plans for heavy industry in general, it seems unlikely that there will be a wholesale withdrawal from heavy industrial endeavours. The relatively greater focus on these spheres of economic activity will therefore be a feature distinguishing Korea increasingly from the other two countries — from Taiwan in the degree to which a broadly based industrial system becomes the goal, from Hong Kong almost in kind as the colony's inherently limited economic base leads it to blaze a trail that has less and less to do with industry as usually defined.

The implications of these developments for Canada are obviously complex, but a few of the main considerations that arise can be summarized here. On the import side, first of all, one's view of the prospect should be tempered by the fact that each of the three states accounts at present for not much more than 1 per cent of total Canadian imports of manufactured goods, which means approximately one third of 1 per cent of the Canadian market for such goods. Secondly, it must be recognized that most of the difficulties suffered by those industries in Canada in which Hong Kong, Taiwanese, and Korean trade is principally concentrated — that is, textiles, clothing, footwear, simple electronic goods, and so on — derive more from other factors than they do from "low-wage competition" from the Far Eastern three. It is true that their penetration of the Canadian market for clothing runs around 25 per cent in terms of units, which is what protectionists tend to cite, but in value terms the proportion is closer to 10 per cent. Generally speaking, the problem these countries pose for Canadian manufacturing until now has been rather minor and has focused on spheres of activity that were in trouble, for one reason or another, already.

As industrial capability expands and the aforementioned shifts occur in the structure of the economies of the three Asian states, competition will intensify primarily in areas different from those where the major impacts are now felt. As noted above, apart from Hong Kong's high-fashion clothing, there will be much less emphasis than hitherto on "traditional" industries, which will tend to move to other places where labour costs are substantially lower. This does not mean that the Canadian industries producing such "traditional" goods, which are located predominantly in Quebec, will be relieved of pressure from low-wage imports, but only that the imports will derive increasingly from different countries than these three. On the other hand, the growing emphasis on complex electronics and machinery, automobiles, and to some extent heavy industry by those economies will principally threaten another part of Canada — Ontario — and a work-force in theory more readily able to accommodate to the competition. That is to say, these Canadian workers are in most instances younger, less exclusively female, and better educated than their counterparts in the "traditional" sectors.

Thus, when one puts together the generally rather low level of import penetration from these sources at present and the evidence that future competition will be in fields where the adjustment by Canadian labour should be relatively easy, it is possible to conclude that the import challenge ought not to be exaggerated. Even so, at a time of serious distress in Canada's manufacturing industry — albeit almost entirely related to cyclical recession rather than to trade competition — such a comforting conclusion is unlikely to appear very credible to Canadian businessmen and workers. The evolution of industry in the three states certainly deserves closer continuing scrutiny than it has received in this country up to now.

When one turns to the opportunities for Canadian exports, as well as for direct investment in many cases, the outlook is extremely promising in the three countries, although with a stress on somewhat different areas in each instance. All are growing markets for a range of high-technology products and services, for components in infrastructure development, and for a great variety of consumer goods. Some of the biggest openings are going to be found in supply of primary commodities to the larger two economies, Taiwan and Korea, where demands will virtually cover the spectrum but will be more than usually interesting in energy products such as coal. Korea, in particular, could become a market for Canadian industrial raw materials of immense importance, very much as Japan has been for many years now. It remains to be seen how far the Koreans will encourage offshore processing of these primary materials, but the chances are increasing that indeed they will prefer in future to import a refined or partially processed commodity rather than the crude form where this is practical.

Excellent market potential also exists in Taiwan and Korea for Canadian agricultural produce of several kinds, although the translation of that potential to actual sales requires a strong merchandising effort and some diplomatic initiatives to overcome certain obstacles. Of these the protection afforded, mainly for political reasons, to the home countries' farmers is most significant, particularly in Korea, but factors such as the edge possessed by U.S. suppliers (for which, too, there are some political explanations) are likewise highly relevant.

Aside from the primary-goods sectors, Canada's best bets in the three states will often be found in services, such as banking and financial mediation, notably in Hong Kong, in large-scale projects of construction or other major developmental undertakings, in certain areas of specialized technology such as telecommunications, and in a number of engineering consultancy fields. These and other possibilities are detailed in the study, which notes that there are invariably large deficits in Canadian trade with Hong Kong and Taiwan, while the more balanced position in respect to Korea in recent years is probably only a temporary event related to the sale of a CANDU nuclear reactor.

A last comment concerns the most recent trends involving Canada's trade with the three states, data for which did not become available until after the period in early 1981 when the study was essentially completed. In 1981, Canadian imports from Hong Kong rose by 17 per cent from the 1980 level, whereas our exports to the colony declined by 5 per cent, thus widening the Canadian deficit in bilateral trade by some $100 million. However, preliminary 1982 data show imports from Hong Kong down slightly and exports up over 30 per cent, so the deficit shrank again by $60 million. With respect to Canada's commerce with Taiwan, the deterioration in 1981 was more marked: imports climbed by 31 per cent, exports were down by 7 per cent, and the bilateral deficit widened dramatically by almost $200 million. Here too, though, 1982 saw the situation reverse itself once more: imports fell that year by 9 per cent and exports rose by more than 25 per cent, causing the deficit to narrow again by $130 million. An even less favourable picture emerged in Canada's trade with Korea in 1981, our purchases increasing by 47 per cent and our sales there falling by 12 per cent, turning the previous year's surplus of $90 million into a deficit of $163 million. (Details of these changes are noted in Appendix Tables 4 and 5.)

Such figures are intriguing because the export performance is so volatile. Thus in 1981, when Canada's global exports rose by over 9 per cent in value terms, shipments to these three markets fell; yet in 1982, with virtually no change in the amount of our exports sales worldwide, exports to the three advanced strongly. The import side is much steadier. In imports, 1981 was the strong year and 1982 the weak one, which was the case for our total foreign purchases; but imports from these three states outstripped the average in 1981 and declined less than most in 1982.

Without attempting to assess the causes of the 1981 export shock, one may say that the bounce-back is remarkable indeed. Despite international recession and uncertainty, Hong Kong, Taiwan, and Korea are providing buoyant markets for Canadian goods. And they are continuing to challenge Canada's home producers also, as our imports from them falter only slightly in the face of weakness in domestic demand. These are forceful economies under any conditions.

Abrégé

On s'intéresse beaucoup, de nos jours, à la concurrence que livrent, sur les marchés mondiaux des produits manufacturés, des pays qui sont entrés sur la scène industrielle il n'y a pas tellement longtemps. Parmi eux, on songe tout d'abord à Hong Kong, à Taiwan et à la Corée du Sud puisque c'est de là que vient en fait la plus grande part des vêtements, des chaussures, des articles de sport, du matériel électrique et électronique de toutes sortes, de la machinerie simple, des jouets et des jeux, des outils et des articles ménagers et de plusieurs autres articles qu'offrent à bon marché nos magasins. Les fabricants européens et nord-américains, qui ne font que commencer à relever les défis que leur a lancés le Japon depuis quelques années, observent ces pays dynamiques avec une certaine crainte. Au cours des années 1960 et 1970, ces trois économies ont affiché un taux de croissance impressionnant, et elles semblent toutes posséder une compétence technique et administrative qui les place au niveau de pays qui constituent depuis longtemps des puissances industrielles. Même si leur expansion a connu des soubresauts ces dernières années, ces pays manifestent tous une résistance remarquable.

On a cependant moins parlé d'un autre aspect de ce phénomène, du moins dans les médias populaires qui s'adressent au public non averti de l'Occident : soit les possibilités commerciales remarquables qu'offrent ces trois États de l'Asie orientale aux exporteurs et aux investisseurs étrangers. À mesure que la production augmente en se diversifiant et en se complexifiant, les besoins de matières premières, d'intrants de production spécialisés, de capacités de traitement particulières et d'éléments de compétence technologique se multiplient. À mesure que les habitants deviennent plus prospères, les demandes des consommateurs augmentent tout en se raffinant. À mesure que leurs sociétés s'acheminent vers la civilisation urbaine complexe que nous connaissons bien dans le monde avancé, il se manifeste sans cesse de nouveaux besoins d'infrastructures, de services et d'innombrables « nécessités de la belle vie », telles que les soins de santé, les installations de loisirs et l'amélioration de l'environnement. Tous ces changements ouvrent toutes grandes les portes aux commerçants étrangers.

La présente étude veut donner au lecteur canadien un aperçu des trois économies et de leur passage, en trente ans ou plus, du sous-développement à leur situation dynamique actuelle. On y trace les grandes lignes de chacune en insistant spécialement sur les particularités structurelles de leurs secteurs manufacturiers ainsi que sur les profils de leurs importations et de leurs exportations, tant sur le plan mondial qu'en rapport avec le Canada. On évalue les perspectives de moyenne et de longue durée en s'appuyant sur les plans et les rapports économiques officiels qui cherchent à orienter l'évolution de l'expansion. À partir de ces données, l'étude relève les implications pour les importations canadiennes en provenance de ces trois pays, et leurs effets éventuels sur notre propre production et notre emploi, tout en identifiant les domaines les plus prometteurs pour les exportations et les investissements canadiens.

En abordant l'analyse, on peut dire de manière générale que les trois États se distinguent sous plusieurs rapports et qu'on ne peut considérer que chacun pose exactement les mêmes problèmes ou offre les mêmes possibilités aux commerçants étrangers. En outre, leur particularité augmente à mesure que l'orientation de développement de chacun met à jour des avantages ou des limites que chaque gouvernement ou milieu des affaires cherche à exploiter ou à éviter, selon le cas. Par conséquent, même si les répercussions sur les marchés et sur les sources d'approvisionnement étrangers seront à plusieurs égards équivalentes, elles différeront sensiblement sous d'autres rapports et devront être examinées en conséquence.

Dans l'ensemble, le texte conclut que nous pouvons prévoir que ce seront toujours les mêmes genres de produits qui constitueront la majorité des importations canadiennes en provenance de ces pays : ce seront des produits de l'industrie légère à forte intensité travail faisant appel à une technologie assez ordinaire, soit des produits que nous sommes habitués à recevoir d'eux. Avec le temps, cependant, l'importance de tels articles — et particulièrement des vêtements et des chaussures — risque de diminuer, du moins en termes relatifs, et probablement en termes absolus aussi, à mesure qu'augmenteront les salaires dans les trois pays, et que l'État et l'industrie prendront conscience du besoin d'insister sur d'autres produits qui risquent moins de perdre leur avantage sur les marchés d'exportation aux dépens de nouveaux pays manufacturiers aux salaires encore plus bas que les leurs. Ils envisagent tous un avenir où une bonne part de leur production fera appel à des compétences et à des connaissances accrues, où l'on portera une plus grande attention à la conception et à la mode, et où une technologie de pointe sera une des composantes à la fois du mode de fabrication et du produit lui-même.

Cependant, si l'on entre dans les détails, il devient évident qu'à partir de maintenant les voies de chacun divergeront considérablement. Hong Kong deviendra une sorte de centre de la mode — tout en cherchant possiblement à maintenir un avantage concurrentiel dans les vêtements bon marché grâce à son accès à la main-d'oeuvre chinoise dans les zones économiques spéciales longeant sa frontière nord. Elle continuera à faire preuve d'une grande ingéniosité dans la fabrication de gadgets électroniques, en partie grâce à la participation de l'entreprise étrangère, en imaginant des applications originales des microprocesseurs et des autres composants sans toutefois participer beaucoup à la conception de la technologie en tant que telle. Quant aux nouvelles frontières, les esprits les plus perspicaces de Hong Kong se consacreront presque certainement à des entreprises commerciales dont les résultats sont intangibles — à des combinaisons financières et à des ententes de courtage avec la Chine, à des tractations immobilières et à d'autres entreprises dans la région du Pacifique, au commerce maritime, à l'assurance et à toutes sortes d'entreprises tertiaires de par l'Extrême-Orient et ailleurs.

Taiwan continuera à dépendre davantage de l'industrie classique. En se diversifiant, toutefois, elle mettra l'accent sur des domaines manufacturiers qu'elle croit être à la fine pointe du développement industriel. Malgré sa petite taille et son manque relatif de capital et de ressources techniques, Taiwan consentira un effort héroïque pour être à l'avant-garde de la révolution microélectronique — non pas, soulignons-le, en cherchant à faire de la recherche fondamentale ou à mettre au point toute une gamme de produits, mais à un niveau qui lui permettra de trouver un créneau tout à fait respectable dans le travail d'innovation fondamental et dans ses applications pratiques. Les Taiwanais chercheront aussi, semble-t-il, à devenir un producteur important de véhicules moteurs pour l'exportation, surtout pour le marché asiatique et dans le contexte d'une spécialisation mondiale par les entreprises automobiles étrangères (probablement japonaises). Pour le moment, du moins, l'industrie lourde actuellement en place à Taiwan servira avant tout à appuyer ces entreprises manufacturières secondaires et d'autres, bien que cette situation puisse changer si les circonstances le permettent. Dans toutes leurs entreprises, on peut s'attendre que les Taiwanais fassent preuve d'une prudence pragmatique tout en saisissant l'occasion s'ils jugent qu'ils ont une chance de succès dans quelque domaine que ce soit.

Les perspectives de la Corée du Sud sont un peu plus floues en raison de ses problèmes économiques et de son instabilité politique. Cependant, si l'on prend pour acquis que son économie peut être réanimée et que l'actuel calme relatif du corps politique peut être maintenu, il est évident que l'orientation du développement industriel différera sensiblement de celle de Hong Kong et un peu moins de celle de Taiwan. Il est vrai que, comme dans ces deux dernières économies, la politique coréenne favorisera un abandon des activités manufacturières qui s'appuient sur un recours à des ouvriers non spécialisés et semi-spécialisés ainsi qu'à une technologie plutôt classique. Les nouveaux efforts s'aligneront en partie sur l'entrée de Taiwan dans l'électronique de pointe et dans les systèmes de microprocesseurs dans la mesure où l'on tentera de fabriquer une partie du matériel pertinent en Corée. On créera probablement d'autres entreprises dans le secteur de la technologie de pointe. Toutefois, les Coréens mettront l'accent sur un éventail plus vaste d'entreprises industrielles. Bien que l'avenir de l'industrie coréenne de l'automobile soit actuellement un peu incertain, cette dernière survivra sans doute et deviendra probablement un facteur dans le commerce international des véhicules, une fois réglés ses problèmes les plus pressants. Malgré les nombreuses questions que soulèvent les plans excessivement enthousiastes de la Corée en matière d'industrie lourde en général, il semble peu probable que l'on s'en retire tout à fait. L'importance relativement plus grande accordée à ces sphères de l'activité économique distinguera donc de plus en plus la Corée des deux autres pays — de Taiwan, dans la mesure où un régime industriel diversifié deviendra l'objectif, et de Hong Kong, presque de par sa nature, dans la mesure où la base économique limitée de la colonie l'obligera à se tailler une voie qui la mènera de plus en plus loin de l'industrie telle qu'on la définit habituellement.

De toute évidence, cette évolution est riche d'implications fort complexes pour le Canada, mais il est possible d'en résumer quelques-unes des principales ici. En ce qui a trait tout d'abord aux importations, il importe de tenir compte du fait que chacun des trois États ne représente pas beaucoup plus que 1 % du total des importations canadiennes de produits manufacturés, ce qui représente environ un tiers de 1 % du marché canadien de tels produits. Deuxièmement, il faut admettre que la plupart des difficultés éprouvées par les industries canadiennes dans les secteurs où s'effectue surtout le commerce avec Hong Kong, Taiwan et la Corée — c'est-à-dire les textiles, les vêtements, les chaussures, les produits électroniques simples, etc. — découlent davantage d'autres facteurs que de la concurrence des bas salaires de ces trois pays de l'Extrême-Orient. Il est vrai que leur pénétration du marché canadien du vêtement atteint les 25 % en termes d'unités, ce sur quoi insistent les protectionnistes; mais en termes de valeur, le taux est d'environ 10 %. En règle générale, ces pays n'ont créé que des problèmes plutôt mineurs pour l'industrie de fabrication canadienne et ce, dans des secteurs d'activité qui éprouvaient déjà des problèmes pour d'autres raisons.

À mesure que la capacité industrielle s'accroîtra et que les modifications sus-mentionnées de la structure de l'économie des trois pays asiatiques surviendront, la concurrence s'intensifiera avant tout dans des domaines autres que ceux où se fait actuellement sentir le plus grand impact. Comme on l'a déjà mentionné, exception faite de la haute couture à Hong Kong, on insistera beaucoup moins qu'auparavant sur les industries « traditionnelles » qui auront tendance à déménager vers des pays où les coûts de main-d'oeuvre sont sensiblement moins élevés. Cela ne veut pas dire que les industries canadiennes qui fabriquent de tels produits « traditionnels », et qui sont situées surtout au Québec, seront soulagées de la pression des importations en provenance de pays où les salaires sont moins élevés, mais seulement que les importations proviendront de plus en plus d'autres pays que ceux-là. Par contre, l'accent de plus en plus marqué placé par ces économies sur l'électronique et la machinerie complexes, les automobiles et, dans une certaine mesure, l'industrie lourde menacera surtout une autre partie du Canada — l'Ontario — et une main-d'oeuvre plus apte, en théorie, à faire face à la concurrence. C'est-à-dire que ces travailleurs canadiens sont, dans la plupart des cas, plus jeunes, à plus forte composante male et mieux instruits que leurs collègues des secteurs « traditionnels ».

Par conséquent, si l'on conjugue le niveau relativement bas de la pénétration de l'importation de ces sources à l'heure actuelle et les preuves voulant que la concurrence future se fasse dans des domaines où l'adaptation de la main-d'oeuvre canadienne devrait être relativement facile, il est possible de conclure qu'il ne faille pas exagérer l'importance de l'enjeu des importations. Il reste qu'à l'heure où l'industrie manufacturière canadienne est en péril — même si cela dépend presque entièrement d'une récession cyclique plutôt que d'une concurrence commerciale —, une telle conclusion réconfortante risque d'apparaître plutôt incroyable aux gens d'affaires et aux travailleurs canadiens. Il importe d'observer avec plus d'attention qu'auparavant l'évolution de l'industrie dans ces trois États.

Si l'on passe maintenant aux possibilités d'exportation pour le Canada ainsi qu'aux occasions d'investissement direct dans de nombreux cas, les perspectives sont très prometteuses dans les trois pays quoique dans des domaines plus ou moins différents selon le pays. Les trois représentent des marchés en pleine croissance pour toute une gamme de produits et de services de technologie de pointe, pour des composants de la mise en place d'infrastructures et pour une grande variété de produits de consommation. Certaines des plus grandes ouvertures s'opéreront dans l'offre de matières premières aux deux plus importantes économies, Taiwan et la Corée, où la demande se fera dans presque tous les domaines mais surtout dans les produits énergétiques tels que le charbon. La Corée, en particulier, pourrait devenir un marché d'extrême importance pour les matières premières industrielles canadiennes, comme l'est le Japon depuis de nombreuses années. Il reste à voir dans quelle mesure les Coréens favoriseront le traitement à l'étranger de ces matières premières; il est cependant de plus en plus probable qu'ils préféreront effectivement à l'avenir importer une denrée raffinée ou partiellement traitée plutôt qu'une denrée brute lorsque cela s'avérera pratique.

Il existe aussi d'excellentes occasions de vendre à Taiwan et à la Corée des produits agricoles canadiens de toutes sortes, bien que le passage de ventes possibles à des ventes réelles exigera un grand effort de commercialisation et des initiatives diplomatiques afin de surmonter certains obstacles, notamment la protection accordée, surtout pour des raisons politiques, aux fermiers autochtones (particulièrement en Corée) ainsi que l'avance des fournisseurs américains (qui s'explique aussi par certaines raisons politiques).

Outre le secteur des matières premières, les meilleures chances du Canada dans les trois États se situent dans les services, tels que les banques ou la médiation financière, notamment à Hong Kong, dans des travaux de grande envergure ou d'autres grandes entreprises de mise en valeur, dans certains secteurs de la technologie spécialisée, tels que les télécommunications, et dans plusieurs domaines du conseil en génie. L'étude offre des détails sur ces possibilités et d'autres encore, et fait valoir qu'il existe à tout coup d'importants déficits dans le commerce du Canada avec Hong Kong et Taiwan, tandis que, depuis quelques années, l'équilibre en matière de commerce avec la Corée n'est probablement qu'une situation temporaire suite à la vente d'un réacteur nucléaire Candu.

Un dernier commentaire porte sur les tendances les plus récentes du commerce du Canada avec ces trois pays, dont les données n'ont été publiées qu'après le début de 1981, alors que l'étude était essentiellement terminée. En 1981, le Canada a importé 17 % de plus de marchandises de Hong Kong qu'en 1980, tandis que ses exportations vers la colonie ont chuté de 5 %, ce qui a fait augmenter le déficit canadien dans le commerce bilatéral de quelque 100 millions de dollars. Toutefois, les données préliminaires pour 1982 indiquent que les importations en provenance de Hong Kong ont baissé légèrement, et que les exportations ont augmenté de 30 %, ce qui a réduit le déficit d'un autre 60 millions de dollars. Quant au commerce avec Taiwan, la détérioration s'est accentuée en 1981 : les importations ont augmenté de 31 %, les exportations ont diminué de 7 %, et le déficit bilatéral a connu une augmentation spectaculaire de près de 200 millions de dollars. Ici encore, cependant, on a vu la situation se renverser à nouveau en 1982 : les importations ont baissé de 9 %, et les exportations ont augmenté de plus de 25 %, ce qui a occasionné une réduction du déficit de 130 millions de dollars. On a affiché un rendement encore moins favorable dans le commerce avec la Corée, nos achats augmentant de 47 % en 1981 et nos ventes diminuant de 12 %, transformant le surplus de 90 millions de dollars de l'année précédente en un déficit de 163 millions de dollars. Toutefois, les chiffres de 1982 indiquent que les importations ont baissé de près de 4 %, et que les exportations ont augmenté de près de 10 %; par conséquent, même si l'on a connu un déficit, il est passé à moins de 100 millions de dollars. (Les détails de ces changements figurent aux tableaux 4 et 5 de l'annexe.)

De tels chiffres sont curieux, car le rendement des exportations est tellement volatile. C'est ainsi qu'en 1981, alors que la valeur des exportations globales du Canada augmentait de plus de 9 %, les livraisons vers ces marchés chutaient; pourtant, en 1982, alors que nos exportations de par le monde ne subissaient à peu près aucun changement, les exportations vers ces trois pays se sont améliorées grandement. Le volet importation est beaucoup plus stable. Dans ce domaine, 1981 a été l'année forte et 1982 l'année faible, tout comme cela a été le cas de l'ensemble de nos achats à l'étranger; cependant, les importations en provenance de ces trois pays ont dépassé la moyenne en 1981, tandis qu'elles fléchissaient moins que les autres en 1982.

Sans pour autant tenter d'évaluer les causes du choc des exportations en 1981, on peut dire que le regain est effectivement remarquable. Malgré la récession et l'incertitude internationale, Hong Kong, Taiwan et la Corée offrent des marchés soutenus pour les denrées canadiennes. Par ailleurs, elles continuent à mettre au défi les producteurs du Canada dans la mesure où nos importations en provenance de ces pays ne déclinent que légèrement malgré la faiblesse de la demande intérieure. Peu importe les conditions, il s'agit donc d'économies vigoureuses.

Part One

Introduction

Introduction

The "New Japans"? An Overview

Something Stirring in the Orient

> The government's not the reason that every piece of hi-fi equipment I own was made in Japan. The reason is that they make better hi-fi equipment.[1]
>
> Watching all the shiny new Toyotas and Hondas and Datsuns flash by me on the Beltway, the thought occurs to me: Perhaps it's time to put Ford firmly in my past.[2]

These two extracts from the same issue of a well-known (U.S.) newspaper — but from articles dealing with entirely different subjects — express in a nutshell the pervasive dismay, coupled with growing resignation, that citizens of most established industrial nations are feeling over a new fact of life in North America and Europe: the astonishing success in their markets of manufactured goods imported from an Asian country, Japan, that has become an economic superpower in the past twenty years. Canadians are voicing much the same sentiments about this phenomenon as others in the Western world, of course. We have seen Japanese exports of fully manufactured, non-food products to this country rise from a value of $65 million in 1960 to one of over $3 billion today. Consumer electronic equipment bought from Japan — that is, radios, television sets, record players, tape recorders, and so on — account for roughly a third of all Canadian domestic and foreign purchases of these items, and indeed Japanese television sets have virtually put our industry out of business. Their cars are taking about 25 per cent of our market — and they seem increasingly popular at a time when both home-produced autos and most European imports are suffering from a slump in sales.

Peering across the Pacific at the industrial dynamo that has achieved these successes — to the benefit, let it be noted, of Canadian consumers who enjoy the chance to buy a superior product for less money — business and labour leaders, economists, and government officials, worried about our competitive position, note that there are other countries in East Asia that seem to have some of the same characteristics as Japan. Although at much earlier stages of the process of industrial development, three states in particular have in recent times displayed a similar energetic and effective application of management skills, painstaking labour, and continuously upgraded process and product technology to the manufacture of goods mainly for export. They are Hong Kong, Taiwan, and South Korea.*

Three Small but Growing Competitors . . .

These are relatively small economies. Indeed, the city state of Hong Kong has a population of just 5 million; and, although Taiwan's population is almost 20 million and South Korea's nearly 40 million, there is an inverse correlation among the three between population size and wealth per inhabitant, bringing Hong Kong's crowded little society closer to Taiwan's and South Korea's larger ones in terms of overall income. Estimates by international development agencies place respective levels of per capita gross national product (GNP) in 1980 at US$4 070 for Hong Kong, US$2 260 for Taiwan, and US$1 425 for Korea.[3] Such figures seem unimpressive compared with Japan's population of approximately 115 million and per capita GNP in 1980 of close to US$10 000. But they appear more noteworthy when one sees what the levels of national product per head were only eight years earlier, in 1972: Hong Kong US$980, Taiwan US$490, Korea US$310.[4] Rates of growth in these countries have been rapid — in the early 1970s the typical inhabitant of Hong Kong was becoming richer each year (in terms of the GNP per capita measure) by an annual average 4.2 per cent, while the corresponding increase for the Taiwanese was 5.7 per cent and that for the South Koreans a remarkable 8.2 per cent.[5] And, despite some faltering in the pace (especially in Korea) during the second half of the decade, expansion generally remained, and continues to remain, very strong.

More important, from the viewpoint of other countries, is the emphasis of the East Asian "little big three" on production of goods for export. Over the ten years 1970–1980, the exports of Hong Kong rose in value from US$2.5 billion to $19.7 billion, the shipments abroad of Taiwan from US$1.5 billion to $19.8 billion, and foreign sales of Korea from US$800 million to $17.5 billion.[6] (See Appendix Tables 1, 2, and 3.) These countries are the powerhouses of the developing world, accounting at the end of the 1970s for a good 10 per cent of the industrial production and 50 per cent of the manufactured exports of the globe's poorer half.

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* Officially, Taiwan is "the Republic of China" (as opposed to "the People's Republic of China" on the mainland) and South Korea is "the Republic of Korea" (in contrast to "the Democratic People's Republic of Korea" in the north). They will generally be referred to in this study as "Taiwan" and "Korea."

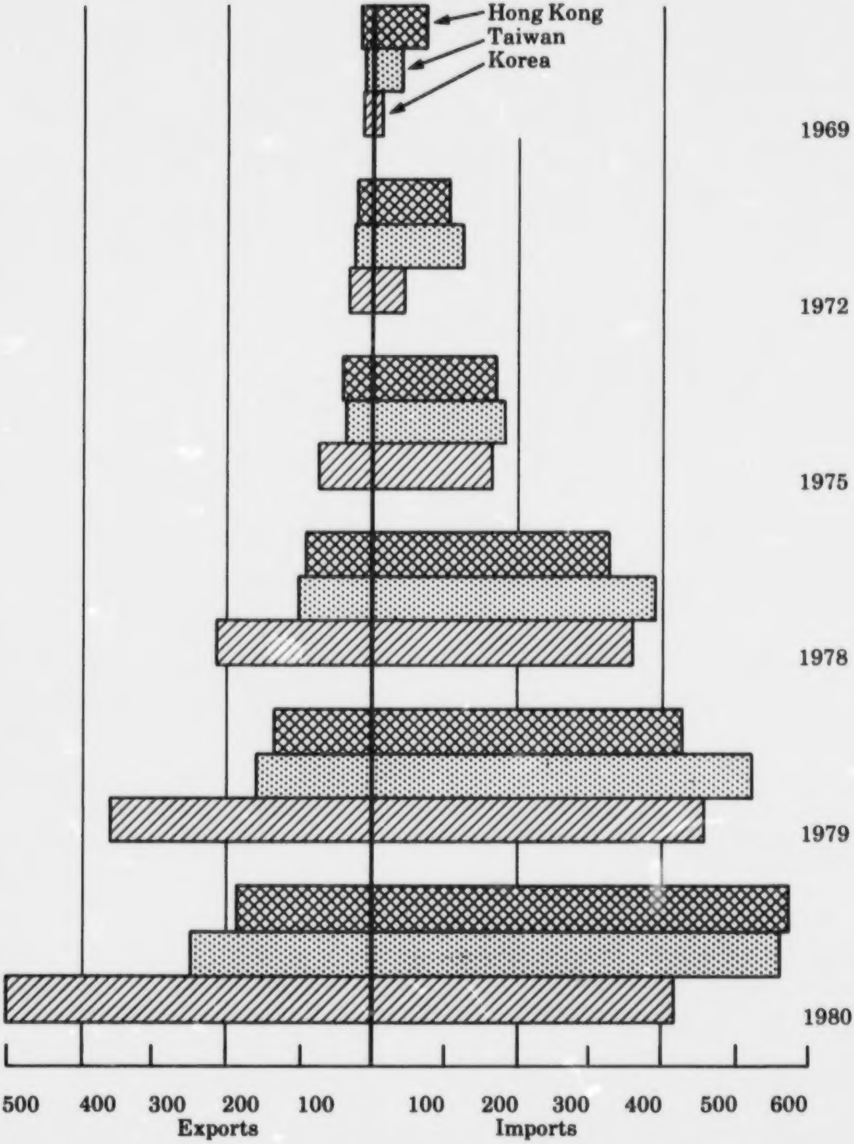
For Canada, the three pose a new challenge that has many potential ramifications. (See Figures 1.1 and 1.2 and Appendix Tables 4 and 5.) Three quarters of Canadian imports of fully manufactured non-food goods from the Third World come from this trio of states — in 1980 approximately Cdn$450 million worth from Hong Kong, Cdn$475 million worth from Taiwan, and Cdn$315 million worth from Korea, compared with 1970 figures of Cdn$67 million, $36 million, and a mere $11 million respectively.[7] Although the recent level of these purchases still amounts, putting the three together, to only 3 or 4 per cent of Canada's total inedible end-product imports or perhaps at most 1 per cent of its consumption (including domestic output and imports) of such goods, the pace of the growth and its concentration in particular industrial sectors makes for certain problems. This is especially the case for textile and clothing manufacturers and their workers and most notably for the province of Quebec.

The question being asked by many Canadians these days is whether the three countries will become, within a fairly short time, in effect a series of "new Japans" — that is, whether the export drive at present focused principally on products such as clothing, footwear, sporting goods, toys, certain lines (generally the less sophisticated) of electrical and electronic equipment, and so on will broaden out into a much wider range of manufactures with greater technical content and more elaborate quality and styling. Gradually a number of rather jolting impressions are beginning to register on people's minds, for example:

- That Hong Kong, in addition to its role as one of the major international financial and commercial metropoles, has developed an impressive competence as a fashion clothing centre and is now starting to upgrade its electrical goods factories to manufacture the most advanced of microprocessor-controlled electronic apparatus.
- That a Taiwanese firm recently bought out the television manufacturing facility of Decca of Britain, thus moving toward the creation of a top-flight international manufacturing and marketing structure, and that the automobile industry in Taiwan is planning to double its production capacity so as to enhance its export potential.
- That Korea, whose auto industry builds a Korean-designed car (the Hyundai "Pony" sedan) and whose steel producers rank twentieth in the world in volume of output, now shows up in *Fortune* magazine's list of "the 500 largest industrial companies outside the United States" with ten entries — only one less than Italy. (Canada has thirty.)

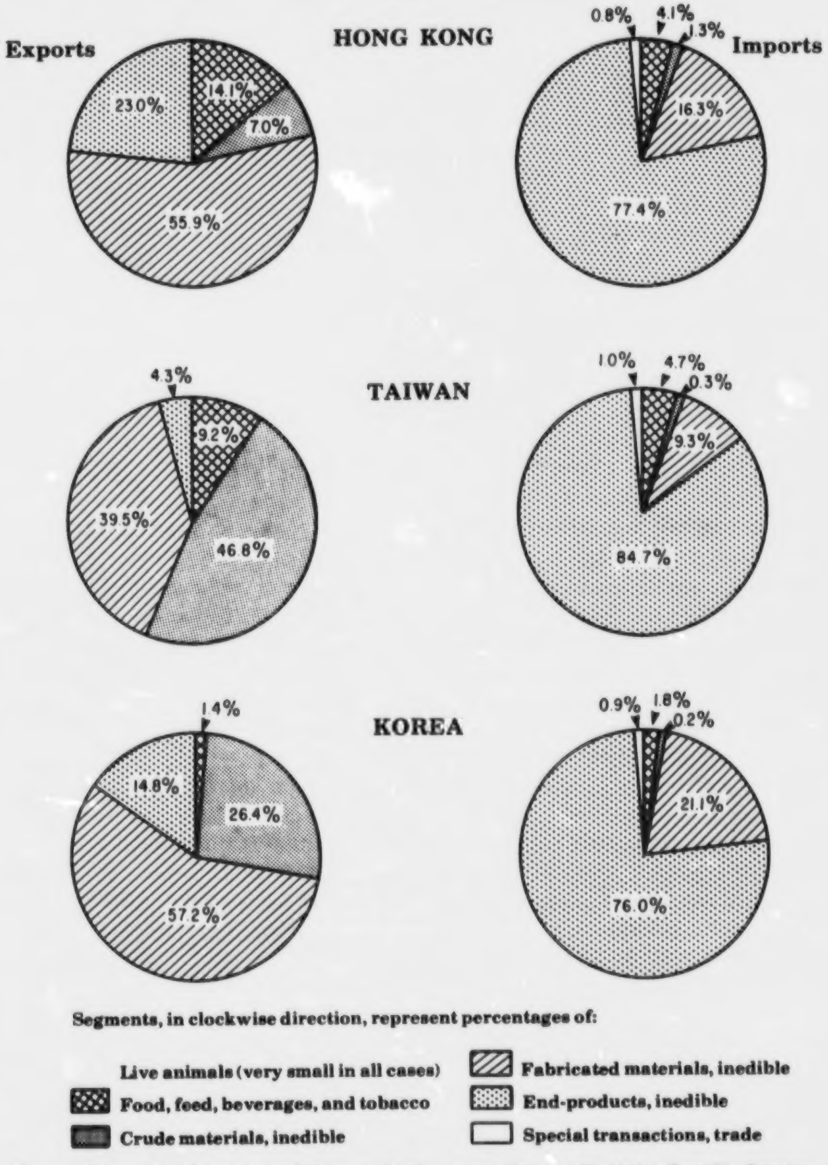
Observers are wondering if subsequent events along these lines will continue on the basis of a level of wages so far below Japan's as to initiate a need for fresh adjustments in impacted Canadian industries

Figure 1.1
CANADIAN EXPORTS TO AND IMPORTS FROM HONG KONG, TAIWAN, KOREA
Selected Years 1969–1980
(Cdn$ Million)



Source: Exports by Countries and *Imports by Countries* (Ottawa: Statistics Canada, various issues).

Figure 1.2
CANADIAN TRADE WITH HONG KONG, TAIWAN, KOREA BY MAIN COMMODITY CATEGORIES
1980



Source: Exports by Countries and *Imports by Countries* (Ottawa: Statistics Canada, January-December 1980).

that are just beginning to accommodate to the shocks Japanese goods have delivered in our markets.

In short, while the threat offered by these three Far Eastern countries is up to now still rather minor, they exemplify a species of danger that seems especially alarming: the move into world trade of nations that to the uninitiated foreigner appear as composed very largely of earnest, single-minded workaholics, with ridiculously low wages, able to turn out products as good as ours, or better, at a fraction of the cost. Needless to say, that is a caricature of the true nature of the societies in Hong Kong, Taiwan, and Korea and of the economic characteristics they embody. But it has enough substance to be worth more intensive examination.

. . . and Attractive Markets and Investment Locations

On the other hand, these economies represent prospective markets for Canadian exports. Their burgeoning economies have led them to increase their imports rapidly in recent years: again over the 1970–1980 period, Hong Kong's foreign purchases rose from US$2.9 billion to $22.4 billion, Taiwan's from US$1.5 billion to $19.7 billion, and Korea's from US$2.0 billion to $22.3 billion (Appendix Tables 1, 2, and 3).[8] Canadian shipments to the three have also grown dramatically. In 1970 Canada sold Hong Kong a total of Cdn$21 million worth of goods, and by 1980 the figure had risen to $193 million. Comparable amounts for the same years in the case of Taiwan were Cdn$18 million and $251 million. In the case of Korea they were Cdn$19 million and $504 million.[9] In other words, these countries' imports as a whole, and their acquisitions from Canada, have been growing by approximately double to triple every three years (though in dollar terms, without allowance for inflation). By any reckoning that is a noteworthy expansion. Yet Canadian sales account for only about 1 per cent of the import markets of Hong Kong and Taiwan, with each of which this country runs a large trade deficit that in 1980 reached Cdn$381 million with Hong Kong, $306 million with Taiwan. Canada does a little better in Korea, securing around 1.5 per cent of that market and roughly balancing its two-way trade (though this may well be due to special temporary factors enhancing our exports and depressing our imports). On the face of it, there would appear to be substantial opportunities for Canadian businessmen in all three countries, with resultant gains for our domestic output and employment.

Finally, growth such as these countries have enjoyed can mean that there is a role for the foreign investor, and in truth they have offered relatively liberal conditions for direct investment by non-resident interests in their industry and commerce. Just to take Korea as an example, the amount of foreign investment occurring between 1962 and 1976 was valued at close to a billion U.S. dollars, of which almost $700 million came from Japanese concerns, nearly $200 million from U.S. firms — and $250 000 from Canadian enterprises.[10]

It is time that Canada began to look more closely at these markets and investment potentialities. Given our government's expressed desire to diversify the country's trading and other international economic relationships, the Pacific region is of very considerable importance — greater in some ways than Western Europe, whose policies involve a degree of autarky under the terms of the European Community. Japan is now our second largest trading partner, after the United States. In view of the spectacular performance of these other three Asian economies, their strong orientation toward export production, and heavy dependence on imported inputs, Canada cannot afford to ignore them or simply to accept that any real understanding of their economies is limited to a handful of bureaucrats and some university professors.

Purposes and Organization of the Study

The Objective and the Direction

As at least a beginning in the process of discovery, the present study will describe the economies of the three countries and assess Canada's past and present economic links with them. It will also offer some pointers to the future evolution of the relationship. This effort at looking forward is rendered especially awkward, in current circumstances, by reason of several factors: the possibility that China may move much more forcefully to establish trade and investment ties with the West henceforward, a development that could have very positive implications for Hong Kong and to some extent for Taiwan; the risk that uncertainty about the lease of Hong Kong's "New Territories" from China might work in the opposite direction, frightening investment capital away; the prospect that mainland Chinese wooing of Taiwan could ultimately result in some sort of reunification, with profound effects on the island's economy; and the danger that there might be a return to the serious political upheavals that have occurred recently in Korea, which could jeopardize its progress. We will examine these and other significant features of the situation, seeking to offer some kind of guide to what might be expected in years ahead.

For at least two reasons, the study will focus principally on the "opportunity" side of Canada's relationship with the three economies — or on what is commonly seen in that way because of the emphasis on producer rather than consumer interests in most popular interpretations of foreign trade and investment matters. In other words, while it will have something to say about this country's restrictions on imports of clothing, footwear, and other labour-intensive goods (including, since the late 1970s, items like bicycles and other metal products, etc.), which are aimed primarily at the Asian manufacturing nations, it will devote more attention to the prospects for successful Canadian adjustments and responses to the new industrial dynamic being manifested on the other side of the Pacific.

The decision to bias the material, to a degree, in such fashion does not in any respect mean that restrictive measures protecting Canada's more vulnerable manufacturing industries are considered unimportant; on the contrary, that whole subject is of the utmost significance, both as it concerns the Multi-Fibre Arrangement and more generally. Rather, it is the very complexity and detailed substance of these issues that constitutes the first of the reasons for not exploring them in depth: it would be hard to do any kind of justice to such concerns in a document like the present one, which has to be relatively short and yet cover three interesting economies and their interface with Canada. This same feeling about avoiding superficiality leads to the second reason for "emphasizing the positive": a nervousness lest discussion of Canadian relations with the three countries become hooked on specific questions of market penetration in textiles and the risk of unemployment among Montreal garment workers or people in electrical products factories in southern Ontario. There has been so much research and media treatment of these dangers and difficulties, admittedly critical though they are, that a more wide-ranging view of the prospect seems desirable.

In consequence, the stress in what follows will be more on the scope for taking advantage of new sources of supply and new market and investment outlets. The challenge to Canadian production and employment will certainly be dealt with, but in the context of a changing environment that has positive as well as negative implications.

The Approach and the Intent

There is a question whether, in a task of this kind, one should consider the subject matter country by country or thematically, on the assumption that there is a common thread running through the analysis regardless of which of the three economies is being examined at any particular time.

In favour of the thematic treatment, we would note at the outset that, despite the differences between the three countries, they possess certain underlying similarities of circumstances. All lie within approximately the same geographical area, situated either on or just off the eastern littoral of Asia, adjoining China, and all are deficient in natural resources. Perhaps more important, they are all either essentially Chinese in majority ethnic composition (Hong Kong and Taiwan) or heavily influenced by historical forces emanating from China (Korea). Given the power of Chinese civilization throughout this region over many centuries, certain deep-seated peculiarities of philosophy and attitude are naturally shared by the peoples of all three states. These characteristics have important economic implications.

Another factor that the three may be said to have in common is an experience of severe shock to, or dislocation of, a pre-existing status, due in one way or another to the accidents of war. Hong Kong, which for a long time enjoyed a prosperous position as an entrepôt in the trade between China and the outside world, saw that role hampered and finally almost terminated by events occurring during the Second World War, the last stages of the Chinese Civil War, and the Korean War. Taiwan, which had been part of China until it was taken over by Japan in 1895 following the Sino-Japanese War, reverted to Chinese hands in 1945 but was soon effectively cut off from the mother country again when, in 1949, it became the seat of government of the Nationalist regime while the mainland fell under the control of Mao Tse-tung's victorious Communists. Korea, colonized by Japan from 1910 to 1945, emerged from the Second World War divided between a Soviet-dominated north and a U.S.-occupied south and then was fought over from 1950 to 1953 in the Korean War, which failed to reunite it. Whether these misfortunes can be said to have galvanized the three states into their present determined bid for material wealth and economic significance is a matter of opinion — and such speculations are really rather pointless. But there is a certain disciplined, tough, and undemanding approach to life, visible in each of these countries, that probably owes much to their common recent experience and may help to ensure that they keep forging ahead, along somewhat parallel paths, through the difficult years of the 1980s.

Yet despite these considerations we have decided here to adopt a country-by-country approach to the evaluation of Hong Kong, Taiwan, and Korea as newly emerging industrial societies. We have made that choice because, notwithstanding their similarities, the three states have differing histories and characteristics, and thus in many respects it would be an error to view them as comparable. In order to sustain the common thread, however, the three stories will be brought together into a single line of discussion when that is appropriate, with comparison of relevant features and events so as to give a more direct message about overall implications.

Nevertheless, the purpose of the study is not to compare the three economies or note their differences except where that is pertinent to an understanding of how they operate and where they are headed. This paper is designed to introduce the Canadian reader to three fairly small corners of the world, of which it is assumed that at present he knows relatively little, and to sketch in enough of the developments in each case to establish a basis for more thorough exploration by those interested in going further. The principal function of the exercise is to offer some broad "economic intelligence," mainly but not wholly for businessmen and other decision makers, moving far enough towards specifics to give a list of each country's most promising market and investment opportunities but focusing primarily on the larger picture — major determinants of growth, factors affecting industrial structure, socio-political forces influencing the prospects for stability or instability, and so on. In other words, what you have in your hands is a "backgrounder": it will not explain precisely how imports of optical equipment from Hong Kong will impinge upon Canada's economy henceforward or in what way Canadian executives should seek to sell computer software programs in Korea;[11] but it should provide the kind of overview that, together with other sources, will make the answers to such questions easier to discern.

Notes

[1] Richard Cohen, "Back to the Good Old Days With Ronnie," from the *Washington Post*, reprinted in the *Manchester Guardian Weekly* (27 July 1980), p. 17.

[2] Pat Bauer, "The Ford in My Past," *ibid*.

[3] Overseas Development Council, Washington, and World Bank, Washington.

[4] James W. Howe *et al.*, *The U.S. and World Development: Agenda for Action 1975* (Washington, D.C.: Praeger for Overseas Development Council, 1975), pp. 198–207.

[5] In the 1960s most of the growth performance figures were even stronger — though in the reverse order to that appearing later: from 1960 to 1970 Hong Kong's per capita GNP grew by an annual average of 8.4 per cent, Taiwan's by 7.1 per cent, and Korea's by 6.8 per cent.

[6] *Hong Kong Trade Review, 1980* (Hong Kong: Research Department, Hong Kong Trade Development Council, 1981); *Taiwan Statistical Data Book 1980* (Taipei: Council for Economic Planning and Development, Executive Yuan, 1981); *The Korean Economy, 1981* (Seoul: Economic Planning Board, 1981).

[7] *Imports by Countries* (Ottawa: Statistics Canada, January-December 1980 and other issues). The values (in Canadian dollars) of Canada's total imports from the three in 1980 were $574 million for Hong Kong, $557 million for Taiwan, and $414 million for Korea; in 1970 they were $78 million, $52 million, and $15 million, respectively.

[8] *Hong Kong Trade Review, 1980*, *op. cit.*; *Taiwan Statistical Data Book 1980*, *op. cit.*; *The Korean Economy, 1981*, *op. cit.*

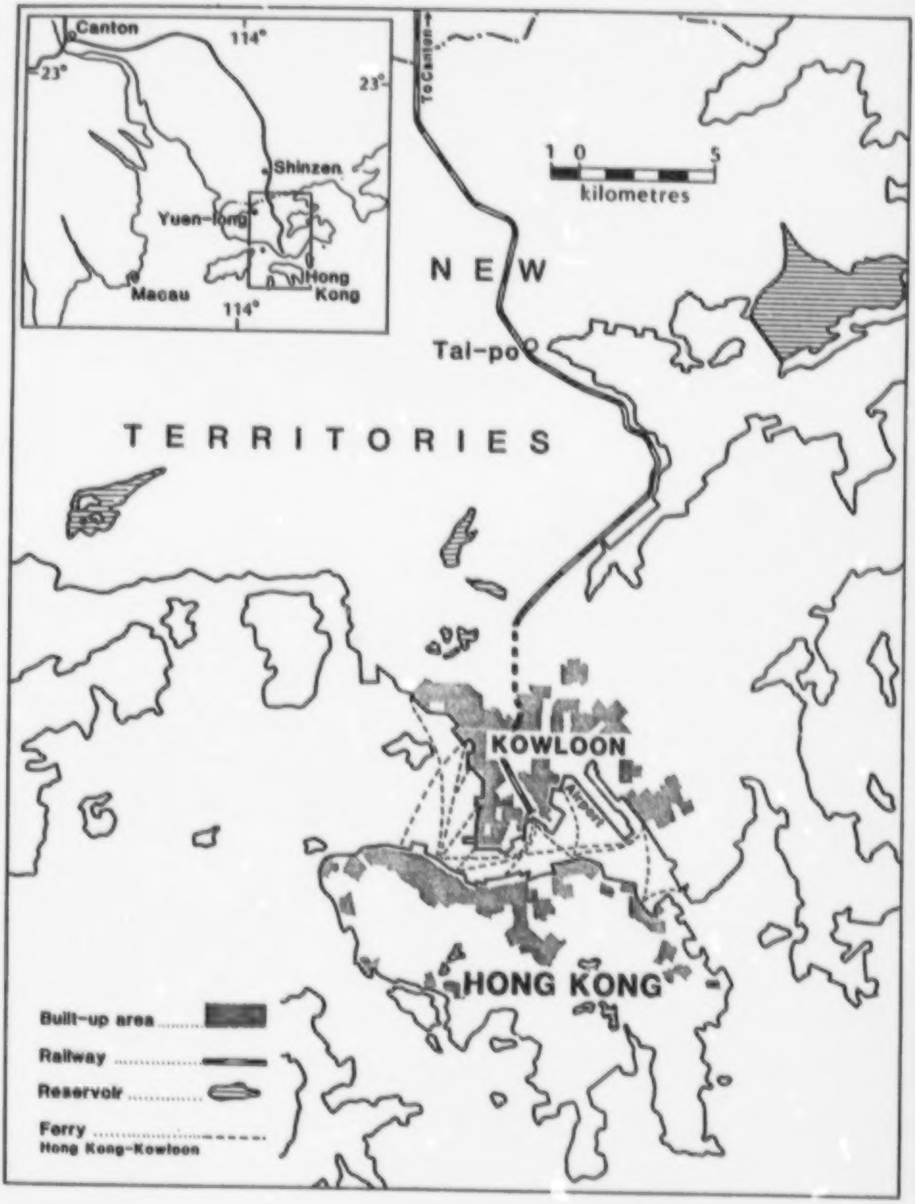
[9] *Exports by Countries* (Ottawa: Statistics Canada, January-December 1980 and other issues).

[10] Korean Economic Planning Board; figures cited in "Korea: The Miracle on the Han River," special supplement, *Euromoney* (April 1977), p. 12.

[11] On such particular matters assistance is available from government departments (including the Trade Commissioner Service of the Department of External Affairs) and from specialized services catering to international business. Some of these contacts are listed at the end of the study.

Part Two

Hong Kong


Canton
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Tai-po
TERRITORIES
KOWLOON
Airport
HONG KONG
Built-up area
Railway
Reservoir
Ferry
Hong Kong-Kowloon

Hong Kong

From Entrepôt to Factory City

Britain's Foothold in the China Trade

Hong Kong is something of an international curiosity. A genuine city-state, it remains a Crown Colony of Britain, which acquired it from China by means of pressure and some armed force in a series of incidents in the mid and late nineteenth century. It consists of the island of Hong Kong itself, measuring only 78 square kilometres (29 square miles), a neighbouring 11-square-kilometre (4-square-mile) peninsula known as Kowloon, a large number of outlying islands and islets off the surrounding coasts, and the major hinterland block between the central metropole and the frontier with China. Whereas Hong Kong Island and Kowloon were ceded to Britain by the Chinese in perpetuity, all the rest of this latter area, collectively referred to by the title "The New Territories" and amounting to 970 square kilometres (370 square miles), was leased for ninety-nine years from 1898. In total the whole colony is thus only just over 1 000 square kilometres (400 square miles) in extent, and much of it is so mountainous and its soil so thin that no more than 10 per cent is considered arable. However, the port of Victoria, as Hong Kong's anchorage is called, provides one of the largest and finest natural harbours in the world, deep enough for the biggest ships and well sheltered from typhoons. It is this feature, and its proximity to the commercially important Chinese city of Canton (Guangzhou), that first attracted the British to the place.

Throughout the years from its acquisition until the 1940s, Hong Kong grew and flourished as an entrepôt in the China trade. Great merchant houses and banking establishments developed, not only facilitating and underwriting the trading ventures that went forward but also financing and managing agencies for the construction of railways, public utilities, and many other enterprises in China. By 1939 this little corner of land, which had contained a few small fishing villages when the British arrived, boasted a population of 1.6 million. Then the Second World War and the Japanese invasion destroyed its function and robbed most of its people of their livelihoods. In 1945, when British control was re-established, the population was down to 600 000, a large proportion of the most highly skilled managers and workers were dead or scattered, and the economy was in ruins.

With extraordinary speed these shortcomings were made good, and between 1946 and 1950 Hong Kong's trade more than quadrupled. The new communist regime in China proved anxious to utilize the colony as a means of developing commercial exchanges with the outside world. But then China entered the Korean War and the United Nations imposed an embargo on most trade with that country, effectively removing again Hong Kong's principal *raison d'être*. The colony's exports to China fell in 1952 to a third of their level the previous year, and they did not begin to rise again until 1955.[1]

An "Economic Miracle"

What began in those years of the late 1940s and early 1950s grew into one of the "economic miracles" of modern times — the creation and rapid enlargement of a manufacturing sector that soon became able to secure markets throughout Southeast Asia and around the world. It was started mainly by entrepreneurs and managers who fled to Hong Kong from Shanghai when the communists captured it. Prior to the war, Shanghai had been the leading industrial centre of the Chinese coast, concentrating principally on the manufacture of cotton textiles. The Shanghai businessmen therefore had all the necessary expertise, and Hong Kong banks were in a position to advance them capital. In 1948 the colony's new textile mills had installed 8 000 spindles; by the end of 1951 there were 210 000, plus 4 500 power looms.[2] Soon other manufacturing industries were added, mostly turning primary textiles into finished garments but also making molded plastic products such as housewares, toys, and artificial flowers. And in the early 1960s electrical and electronics factories began to appear.

From these early beginnings manufacturing industry grew quickly. In 1950, industry accounted for about 10 per cent of Hong Kong's gross domestic product and perhaps 15 per cent of its exports.[3] Twenty years later the manufacturing sector accounted for more than a third of the GDP and an overwhelming preponderance of its shipments abroad. Whereas in 1950 the ratio of domestic exports to re-exports was about one to eight (reflecting its role of entrepôt in export trade), it turned around in the mid-1950s and by 1960 was almost three to one and by 1970 over four to one. At about that point the gradually emerging less developed countries of South East Asia began to rely on Hong Kong as a distribution centre, and China started to become interested in trading with the West again. As a consequence, Hong Kong's entrepôt role was revived once more, reaching a ratio of two to one in domestic exports to re-exports in 1980 — but without in any way slowing down the exports of local manufactures.

The expansion of manufacturing was greatly assisted — and one might almost say made virtually imperative — by the immense inflow of refugees into the colony from China. The population trebled between 1945 and 1950 and doubled again over the next two decades.[4] It is now approximately five million. Manufacturing industry absorbed a high proportion of these newcomers, employing 47 000 in 1947, 177 000 in 1959, and nearly a million today.[5] These manufacturing workers, who represent now over 40 per cent of the total labour force, are still engaged predominantly in the textile and clothing industries (one half of all industrial employees), but it is the manufacture of electrical and electronic equipment that is in second place in terms of employment and is by far the most rapidly growing sector.

As output and employment in manufacturing grew in the period from 1950 to the late 1970s, the total trade of Hong Kong increased fifteen times, while domestic exports alone grew no less than one hundredfold. As of the end of that period, the colony was easily the world's largest exporter of garments and toys, and the second largest exporter of transistor radios, wigs, and watches.[6] It had been for fifteen years the biggest exporter of manufactured goods among the developing countries, responsible for about one sixth of the total exports of such goods by those poorer countries.[7] However, it was starting to feel the challenge, by then, from our two other East Asian industrializing states, Taiwan and South Korea, as we shall see.

The Economy and Its External Relations

Hong Kong's Export Patterns

What, in detail, is the pattern of the colony's export trade today, by commodity and market, and how has it changed over recent years? Over a third of Hong Kong's 1980 merchandise exports consisted of clothing, about 3 per cent more than a decade earlier, while electrical and electronic products accounted for an eighth of the total, compared to about one twelfth in 1970.[8] For the rest, the categories of toys, games and dolls, watches and clocks, textile yarns and fabrics, travel goods, and so forth, were among the more important in 1980, as they had been over the whole ten-year period (Table 2.1). On the face of it, that picture seems to imply a slight increase in the already very heavy concentration on the trade in clothing, and a rapid rise in many classes of consumer electronics equipment, which greatly increased their share from small beginnings to assume a very substantial position.[9]

As to the destinations of domestic exports, 1980 saw roughly one third of all Hong Kong's foreign shipments going to the United States, not much different from 1970.[10] The next biggest customer was West Germany, followed by Britain, Japan, Australia, Singapore, and

Table 2.1
EXPORTS OF HONG KONG, BY COMMODITY[a]
1970 and 1980

	1970		1980			
	Total Exports		Domestic Exports		Re-exports	
	US$ Mln.	%	US$ Mln.	%	US$ Mln.	%
Total	2 514	100.0	13 689	100.0	6 039	100.0
Clothing and Accessories	699	27.8	4 670	34.1	312	5.2
Watches and Clocks	45	1.8	1 263	9.2	421	7.0
Toys, Games and Dolls	183	7.3	1 209	8.8	27	0.4
Textile Yarns, Fabrics, etc.	275	10.9	911	6.7	866	14.3
Electrical Equipment	115	4.6	902	6.6	394	6.5
Radios	96	3.8	795	5.8	51	0.8
Travel Goods and Handbags	29	1.2	302	2.2	41	0.7
Other Telecommunications Equipment	10	0.4	215	1.6	207	3.4
Jewellery and Silverware	31	1.2	214	1.6	37	0.6
Photographic Apparatus, etc.	8	0.3	167	1.2	143	2.4
Footwear	51	2.0	125	0.9	43	0.7
Fishery Products	18	0.7	69	0.5	95	1.6
All Other Commodities	954	38.0	2 847	20.8	3 402	56.4

[a] Because of the expansion of re-exports (mainly a result of Hong Kong's revived entrepôt role *vis-à-vis* China) in recent years, they are shown separately from domestic exports in 1980. Items are listed in the order of importance of 1980 domestic exports.

Sources: *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 361–62; *Hong Kong External Trade, December 1980* (Hong Kong: Trade Research Section, Census and Statistics Department, 1981), Appendix 1. Original data for 1980 expressed in Hong Kong dollars; translated into U.S. dollars at average exchange rate for that year.

Canada (Table 2.2). The position of the United States as a major purchaser of Hong Kong products is an evident feature of the colony's trade: the proportion of the total taken by that market moved up and down over the last ten years but always around the 30 per cent figure. On the whole, the geographic orientation of Hong Kong export trade has not changed all that much over the past decade, save for the growing scale of re-exports — essentially transshipments between China and other (mainly Asian) countries, in both directions.

Although the data do not suggest a very pronounced alteration in Hong Kong's export pattern in recent years, these apparently static proportions in exports over the 1970s conceal some substantial upgrading within major product groups and some improvement in the output mix towards products of higher quality and sophistication. For example, many garments now being sold abroad are of much higher

Table 2.2
EXPORTS OF HONG KONG, BY COUNTRY[a]
1970 and 1980

	1970		1980			
	Total Exports		Domestic Exports		Re-exports	
	US$ Mln.	%	US$ Mln.	%	US$ Mln.	%
United States	897	35.7	4 537	33.1	619	10.3
West Germany	167	6.6	1 483	10.8	132	2.2
Britain	257	10.2	1 364	10.0	164	2.7
Japan	178	7.1	468	3.4	442	7.3
Australia	70	2.8	390	2.8	87	1.4
Singapore	102	4.1	360	2.6	504	8.3
Canada	69	2.7	358	2.6	36	0.6
China	11	0.4	322	2.4	932	15.4
Netherlands	38	1.5	316	2.3	34	0.6
France	10	0.4	283	2.1	52	0.7
Switzerland	36	1.4	257	1.9	125	2.1
Taiwan[b]	n/a	—	168	1.2	448	7.4
Korea[b]	17	0.7	46	0.3	181	3.0

[a] See footnote to Table 1.

[b] Taiwan and Korea are included here because of their relevance in the context of the study; Hong Kong's sales to Taiwan in 1980 were exceeded by those to Italy, Nigeria, Sweden, and Saudi Arabia, while another sixteen countries provided a larger market than Korea.

Sources: *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), p. 357; *Hong Kong External Trade, December 1980* (Hong Kong: Trade Research Section, Census and Statistics Department, 1981), Appendix 1. Original data for 1980 expressed in Hong Kong dollars; translated into U.S. dollars at average exchange rate for that year.

quality than those sold a decade ago, while diversification in the output of consumer goods indicates improvement in the output mix.

Exports to Canada

Canadian purchases from Hong Kong in 1980 were valued at Can$574 million, nearly seven times the level of a decade earlier.[11] Of these totals, 86 per cent fell into the category "end products, inedible" — that is, fully manufactured non-food items. The major items coming into Canada from the colony consist mainly of various kinds of clothing (34 per cent of total), watches, toys, and consumer electronic products. A breakdown of recent imports by this country from Hong Kong is shown in Table 2.3.

In terms of relative standing in the Canadian market over the past decade — that is, as proportions of Hong Kong's total sales here — clothing as a group has remained the front runner; within the category, knitted outerwear has risen slightly in position while "other" apparel has dropped a little. Small changes in status have occurred in the categories of games and toys and televisions and radios

Table 2.3
CANADA'S PRINCIPAL IMPORTS FROM HONG KONG[a]
Selected Years 1969–1980

	1969		1972		1975		1977		1979		1980		
	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	% of Total
Apparel and apparel accessories[b]	34 216	1	45 089	1	83 718	1	120 686	1	157 304	1	195 758	1	34.1
Precious metals, including alloys	—	—	—	—	—	—	4	*	7	*	71 581	2	12.5
Watches, clocks, and silverware	1 608	9	1 937	8	4 272	5	13 364	4	39 531	3	47 097	3	8.2
Games, toys, and children's vehicles	6 984	3	9 742	2	12 991	2	26 359	2	41 125	2	38 326	4	6.7
Radios, phonographs and television sets	2 201	4	8 685	3	12 074	3	21 877	3	19 195	6	27 429	5	4.8
Miscellaneous equipment and tools	6	*	547	*	2 382	*	6 758	6	22 809	4	26 429	6	4.6
Other end products, inedible	7 605	2	5 896	4	6 084	4	11 832	5	20 806	5	22 308	7	3.9
Other personal and household goods	1 652	8	2 692	7	3 533	8	6 375	7	11 677	7	13 872	8	2.4

Fish and marine animals	1 099	10	1 210	*	2 210	*	4 158	*	11 146	8	10 843	9	1.9
Other telecommunications and related equipment	13	*	32	*	1 752	*	5 638	9	6 885	10	9 631	10	1.7
Footwear	1 856	7	1 396	10	1 174	*	2 225	*	5 547	*	8 422	*	1.5
Broad woven fabrics of natural fibres	2 186	5	3 102	5	3 714	7	5 948	8	7 448	9	8 365	*	1.5
Kitchen utensils, cutlery & tablewear	1 055	*	1 549	9	1 544	*	2 803	*	4 893	*	5 928	*	1.0
House furnishings	2 086	6	2 784	6	2 498	9	4 894	10	4 438	*	5 172	*	0.9
Other office machines and equipment	2	*	8	*	4 217	6	2 480	*	6 864	*	4 854	*	0.8
Synthetic and mixed fabrics	488	*	469	*	2 383	10	1 169	*	2 160	*	1 177	*	0.2
Total of top ten	61 493		82 872		135 484		223 731		337 746		463 274		
Total imports from Hong Kong	72 942		104 970		170 930		280 422		427 084		574 372		
Top ten as percentage of total	84.3		78.9		79.3		79.8		79.1		80.7		

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* = less than tenth.

[a] Listed in order of ranking in 1980. All product categories are included that fell into top ten in any year during period covered.

[b] Groups together "outerwear, knitted," "outerwear, except knitted," and "other apparel and apparel accessories."

Source: Imports by Countries (Ottawa: Statistics Canada, various issues).

(which on a relative basis crested in 1976 and then fell). However, new and much more dynamic sectors are beginning to appear: watches, clocks, and so on, which climbed from ninth place in the ranking to third by virtue of a twenty-fivefold increase in the value of shipments over the ten years; miscellaneous equipment and tools, which emerged from obscurity to fourth place in 1979 (though dropping to sixth in 1980) as the worth of such exports rose several thousandfold; and "other" telecommunications and related equipment, which also came from nowhere with a huge increase to reach tenth place. On the other hand, the positions of textile fabrics, house furnishings, and footwear have all declined, and by 1980 none of these three was to be found in the top ten of Canadian imports from Hong Kong.

The impact of inflows of goods from Hong Kong will be dealt with later. For the moment, suffice it to note that some of the categories indicated as important in Canadian purchases from Hong Kong have certainly affected the home producer. For instance, a study based on statistical material for the early to mid-1970s showed that the share of the Canadian market captured by toys imported from all developing countries increased by 66 per cent between 1970 and 1974; most of these toys in fact came from Hong Kong.[12] If the same type of data were available for more recent years — and with a breakdown for Hong Kong alone — no doubt it would reveal a number of other cases of such growth in market penetration.

The Colony's Purchases From Abroad

As might be expected given its very limited territory and substantial industrial development, Hong Kong has to rely heavily on imports of raw materials and semi-processed inputs, which throughout the 1970s accounted for over 40 per cent of its total import trade.[13] Another 12 to 15 per cent of the import bill, again not surprisingly, consists of foodstuffs. These two proportions have not altered significantly for a number of years, but the share of the value of all imports taken up by fuels and related products has risen over the 1970s, for obvious reasons, from less than 3 per cent to over 6 per cent. Extremely stable in their relative size in the import total through the decade have been purchases of capital goods, at 12 to 14 per cent. Acquisitions from abroad of consumer products have averaged just under a quarter of overall imports, rising and falling from around 22 per cent to 26 per cent without any clear trend up or down. Further detail on Hong Kong's imports is contained in Table 2.4, which shows the great (though declining) relative importance of purchases of primary textiles for production of clothing, as well as the growing cost of acquiring fuels. It also indicates that imports of watch and clock parts are rising in significance, as are those of telecommunications equipment other than radios and television receivers. However, on the whole the list has been fairly stable over the ten years.

Table 2.4
IMPORTS OF HONG KONG, BY COMMODITY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Total	2 905	100.0	22 420	100.0
Textile Yarn, Fabric, etc.	497	17.1	2 991	13.3
Fuels	85	2.9	1 535	6.8
Electrical Equipment	165	5.7	1 511	6.7
Watches and Clocks and Parts	95	3.3	1 195	5.3
Telecommunications (ex. TV, etc.)	25	0.9	717	3.2
Clothing and Accessories	46	1.6	696	3.1
Road Motor Vehicles	64	2.2	665	3.0
Iron and Steel	77	2.7	636	2.8
Paper and Paperboard	62	2.1	370	1.7
Cotton	90	3.1	343	1.5
Photographic Apparatus, etc.	48	1.7	341	1.5
Fruit	58	2.0	266	1.2
Television, Radio, etc.	59	2.0	180	0.8
All Other Commodities	1 534	52.7	10 974	49.1

Sources: *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 358–59; *Hong Kong External Trade, December 1980* (Hong Kong: Trade Research Section, Census and Statistics Department, 1981), Appendix 1. Original data for 1980 in Hong Kong dollars; translated into U.S. dollars at average exchange rate for that year.

The consistency in Hong Kong's imports by major category is echoed in the breakdown by principal sources of supply.[14] Japan is the largest single origin of imports to Hong Kong; its trade, consisting largely of intermediate materials and capital goods, accounted for between a fifth and a quarter of all the colony's purchases throughout the 1970s. Next in importance is China, providing food and some energy products, which was responsible for some 16 to 20 per cent, and then the United States, supplying raw materials and capital goods, with 12 to 13 per cent. Only in respect to somewhat less significant suppliers did the 1970s produce much change — notably an increase in regional trade, especially with Singapore, Korea, and Taiwan, and a fall from 9 per cent to 4 per cent in imports from Britain. Canada's proportion remained steady at about 0.7 per cent (Table 2.5).

Imports From Canada

In 1980 Hong Kong acquired from Canada goods valued at Cdn$193 million, an amount that, like the figure for its sales to this country, was approximately seven times the total of a decade earlier.[15] However, the exports from Canada to Hong Kong were only one third as great as trade in the other direction, so the expansion of commerce

Table 2.5
IMPORTS OF HONG KONG, BY COUNTRY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Japan	691	23.8	5 149	23.0
China	467	16.1	4 407	19.7
United States	382	13.1	2 653	11.8
Taiwan	n/a	—	1 599	7.1
Singapore	59	2.0	1 483	6.6
Britain	250	8.6	874	3.9
South Korea	26	0.9	777	3.5
Switzerland	85	2.9	582	2.6
West Germany	108	3.7	579	2.6
Australia	71	2.4	341	1.5
Thailand	54	1.9	317	1.4
France	34	1.2	282	1.3
Italy	43	1.5	275	1.2
Canada[a]	20	0.7	157	0.7

[a] In addition to those shown, the following countries were larger suppliers of Hong Kong imports than Canada in 1980: Belgium, South Africa, Israel, Philippines, Malaysia, Pakistan, Netherlands.

Sources: *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), p. 357; *Hong Kong External Trade, December 1980* (Hong Kong: Trade Research Section, Census and Statistics Department, 1981), Appendix 1. Original data for 1980 expressed in Hong Kong dollars; translated into U.S. dollars at average exchange rate for that year.

each way widened the bilateral deficit — from Cdn$58 million in 1970 to $381 million in 1980.

As one would expect, Canadian sales to Hong Kong appear to be rather more heavily concentrated in the raw materials and semi-processed category than is the case for Hong Kong's purchases from abroad in general. Although the statistical classifications do not jibe exactly, the Canadian sub-sectors "crude materials, inedible" and "fabricated materials, inedible" probably conform fairly closely to the Hong Kong commodity item "raw materials and semi-manufactures." Thus, the combined proportions in Canada's exports to the colony of 7 per cent and 56 per cent for those two sub-sectors, respectively, in 1980 certainly make them loom larger than the 40 to 45 per cent that the corresponding item typically represents in Hong Kong's global imports. On the other hand, Canadian sales to Hong Kong of "food, feed, beverages, and tobacco" accounted in 1980 for a proportion of our overall exports to that destination — 14 per cent — which is roughly similar to Hong Kong's imports of "foodstuffs" relative to the total of its foreign purchases.

Therefore, the sphere in which Canada's exports seem to be light is "end products, inedible," which in 1980 represented 23 per cent of the total, against Hong Kong imports in the "consumer goods" and "capital goods" classes that usually amount to about 25 per cent and 12 to 14 per cent of its overall import trade respectively.

The largest item in Canadian sales to Hong Kong throughout the 1970s was aluminum and aluminum alloys; however, its importance in the total fluctuated from a high of 20 per cent in the early 1970s to 9 per cent in 1979. Aside from a major and entirely unusual shipment of gold in 1979 that put "precious metals, including alloys" into second place with 8 per cent of the total, the big items in recent years have all been industrial raw materials such as nickel, synthetic rubber and plastic materials, and newsprint paper, or agricultural commodities like wheat. However, some manufactured products like telecommunications equipment are becoming important (Table 2.6).

Foreign Investment

In addition to foreign trade, there are of course other ways in which outside interests impinge on the economy of a state and in which its own enterprises have effects in other markets. One of these is the mechanism of direct investment by non-resident corporations in other countries' industrial and commercial activity through acquisition of established local firms — or a partial involvement in them by mergers, combinations, or other arrangements — or through the creation of new facilities not existing there before. In a sense, Hong Kong is the location for an immense volume of foreign-controlled enterprises. Although the population of the colony is 98 per cent Chinese and the vast majority of businesses are Chinese owned, most of these endeavours are small shops, restaurants, and similar family firms. Chinese capital is extremely important in real estate and certain types of manufacturing, commerce, and banking, but the big money in this activity is concentrated in relatively few hands and the number of larger Chinese companies is not great. Major industrial and financial corporations are largely British, in that their capital derives originally from Britain and a high proportion of their senior personnel is British.[16]

These British concerns are, however, in many cases of such long standing in Hong Kong that they might almost be considered indigenous to the territory — which is, after all, a colony of Britain. The Hongkong and Shanghai Bank, which is an exceedingly powerful institution with branches all over the world, set up its headquarters in Hong Kong in 1865 and has grown with the colony. Jardine, Matheson and Company, whose current direct or related involvements have been summarized as "shipping, airways, trading, textiles, engineering and manufacturing, insurance, financial, secretarial and investment services, real estate, and overseas activities,"[17] started life as a private partnership in Canton in 1832 and moved to Hong Kong ten years

Table 2.6
CANADA'S PRINCIPAL EXPORTS TO HONG KONG[a]
Selected Years 1969–1980

	1969		1972		1975		1977		1979		1980		
	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	% of Total
Aluminum, including alloys	3 864	1	3 030	1	10 287	1	13 535	1	12 279	1	23 398	1	12.1
Nickel and alloys	157	*	116	*	457	*	2 276	7	8 008	4	19 575	2	10.1
Synthetic rubber and plastic materials	1 707	3	1 705	3	615	*	2 700	6	10 762	3	12 973	3	6.7
Oils, fats, waxes, extracts, & derivatives	—	—	352	*	244	*	3 658	4	5 134	8	10 743	4	5.6
Wheat, unmilled	1 662	4	1 602	4	1 271	6	3 940	3	5 591	7	7 965	5	4.1
Newsprint paper	2 211	2	2 501	2	5 071	2	4 108	2	7 490	5	7 765	6	4.0
Paperboard	18	*	7	*	—	—	2 148	9	2 521	*	7 303	7	3.8
Precious metals, including alloys	5	*	—	—	3	*	—	—	11 013	2	6 966	8	3.6
Other telecommunications & related equipment	28	*	135	*	1 123	8	578	*	3 473	*	6 866	9	3.6
Photographic goods	66	*	111	*	81	*	240	*	1 795	*	6 192	10	3.2
Other end products	30	*	210	*	341	*	468	*	1 760	*	5 425	*	2.8

Fish and marine animals	107	*	277	*	363	*	487	*	7 433	6	5 108	*	2.6
Other paper for printing	4	*	682	*	1 013	10	2 945	5	4 183	9	4 460	*	2.3
Hand tools & miscellaneous cutlery	216	*	263	*	467	*	1 642	*	3 752	10	4 286	*	2.2
Other oil seeds, oil nuts, and oil kernels	—	—	—	—	609	*	1 825	*	2 655	*	4 090	*	2.1
Fruits and fruit preparations	429	10	923	7	1 332	5	1 757	*	3 375	*	3 221	*	1.7
Other paper	608	7	931	6	821	*	822	*	1 075	*	3 040	*	1.6
Other foods and materials for foods	70	*	130	*	1 967	4	1 073	*	2 182	*	2 829	*	1.5
Other crude vegetable products	580	8	754	10	1 047	9	1 941	10	3 484	*	2 615	*	1.4
Medicinal & pharmaceutical products in dosage	876	5	827	9	607	*	729	*	1 541	*	2 413	*	1.3
Office machines and equipment	32	*	131	*	2 712	3	1 416	*	1 322	*	1 807	*	0.9
Zinc and zinc alloys	630	6	900	8	1 203	7	2 180	8	1 942	*	1 645	*	0.9
Wheat flour	508	9	296	*	717	*	711	*	818	*	598	*	0.3
Broad woven fabrics of natural fibres	80	*	1 417	5	370	*	763	*	1 093	*	465	*	0.2
Total of top ten	13 075		14 590		27 026		39 431		75 645		109 746		
Total exports to Hong Kong	17 678		21 064		42 117		67 004		137 417		192 875		
Top ten as percentage of total	74.0		69.3		64.2		58.8		55.0		56.9		

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* = less than tenth.

[a] Listed in order of ranking in 1980. All product categories are included that fell into top ten in any year during period covered.

Source: Exports by Countries (Ottawa: Statistics Canada, various issues).

later. There are many other companies operating in all economic spheres that have equally or almost equally long lineage and may perhaps best be thought of as domestic to Hong Kong rather than foreign.

In the last twenty-five years, though, new direct investment has been coming in from abroad, actively encouraged by the government, especially in manufacturing production. The cumulative value of such foreign investment in manufacturing as of early 1980 was HK$2.35 billion (US$470 million).[18] By far the biggest source of this investment has been the United States, with 45 per cent of the total, followed by Japan (22 per cent) and then Britain (7 per cent) and other European countries, plus Australia and some East Asian nations like Singapore. Most of the capital so invested has gone into electronics (24 per cent), textiles (16 per cent), chemicals and allied products (13 per cent), electrical goods (9 per cent), watches and clocks (7 per cent), and printing and publishing (7 per cent). Foreign investment has occurred in many kinds of financial and service undertakings as well.

Canada is fairly prominent in the Hong Kong financial scene and in some service activities, but it has not moved very far into the industrial or commercial pictures. The seven biggest Canadian chartered banks are all involved in the colony, the five majors having full banking status (granted in 1978) and the National Bank and Bank of British Columbia maintaining representative offices. The Royal Bank, Toronto-Dominion Bank, and Canadian Imperial Bank of Commerce class their operations in Hong Kong as regional headquarters for some or the whole of the Far East and western Pacific area. Loan syndication is common to all the Canadian banks, and they also engage in foreign exchange transactions and trade financing. The Royal Bank has a partnership with the Inchcape Group of Hong Kong in a leasing firm, while the Bank of Commerce is engaged with Hong Kong Chinese interests — the prominent business house of Cheung Kong (headed by property magnate Li Ka-shing) — in a fifty-fifty venture in real estate mortgage lending. All the evidence is that these banking activities are thriving.

While banks are the largest Canadian presence, companies such as Alcan, Dominion Securities, Inco, Manufacturers Life, Mitel, Northern Telecom, Richardson Securities, and Sun Life are also on the ground in some form in Hong Kong, as are a few professional firms like Phillips and Vineberg, the Montreal lawyers. Two recent arrivals are AES Data and I.P. Sharp, both high-technology concerns. It is perhaps worth commenting here that, in addition to the federal government offices, both Ontario and Alberta have representation in the colony looking out for trade and investment prospects.

Turning to the other side of the foreign investment coin, Hong Kong capital is extensively invested abroad, particularly in real estate and such businesses as hotels and amusement parks (also held mainly for their real property value) but also in manufacturing enterprises. The identity of the Hong Kong interests involved in foreign investments is usually not widely known.

As noted above, the Hongkong and Shanghai Bank has branch operations all around the globe — in association with three other banks in the Hongkong Bank Group it advertises "400 offices in 40 countries" — and this represents a substantial direct investment in itself. What is more interesting is the conduit that such an international banking operation provides for Hong Kong capital to move into overseas investments of all types, including those that create capability for production in other countries under Hong Kong ownership or control. Already Hong Kong investment is a substantial element in textile production and other light industries in Indonesia, Singapore, the Philippines, Taiwan, Macao, and Thailand, and it is not without importance in Mauritius, Nigeria, and Ghana.[19] There is no doubt that a much greater potential exists. If the matter of the New Territories lease with China is not soon resolved — a point we will be referring to shortly — one might certainly expect the flow of Hong Kong investment overseas to increase and perhaps more of it to be channelled into industrial activities as against real estate and other more "passive" holdings.

Little information exists on Hong Kong investments in Canada, but there is said to be a considerable amount of capital from the colony in land and buildings throughout this country, especially in British Columbia. Suggestions have indeed been made that an inflow of Hong Kong capital contributed materially to the rapid increase in property values that occurred on the west coast up until recently.

Current Situation and Outlook for Tomorrow

Some Worries in the Prevailing Euphoria

On the face of things, Hong Kong's position (based on a growth performance in the 1960s and 1970s summarized in Table 2.7) is one of virtually unblemished good fortune, the economy buoyant and optimism general about the prospect. Growth in 1981 slowed to 7 per cent in real terms from 10 per cent the previous year, but given world conditions that is still an enviable achievement. It is true that the pace of inflation, which rose to over 15 per cent on an annual basis in both 1980 and 1981 from far lower rates in earlier years, is a cause of concern;[20] and unemployment has climbed to between 3 and 4 per cent as compared to 2 per cent or so during most of the 1970s.[21] However, the former problem is felt to be manageable, while the latter situation (allowing for the fact of a rather different method of measurement than in Canada) is still close enough to full employment as to be

Table 2.7
AN OVERVIEW OF THE ECONOMY OF HONG KONG
The Boom Years 1959–1979

		Nominal Growth Rates[a]			Real Growth Rates[a]		
	1979	1959–69	1969–79	1959–79	1959–69	1969–79	1959–79
Population (mid-year)	4.9 mln.				2.7	2.4	2.5
GDP (at market prices)							
Total	HK$ 87.3 bln.	13.2[b]	18.3	16.0[b]	10.7[b]	9.0	9.8[b]
Per capita	HK$ 17 825	10.4[b]	15.5	13.2[b]	8.0[b]	6.5	7.1[b]
Foreign Trade							
Domestic Exports	HK$ 55.9 bln.	16.5	18.2	17.3	14.3	8.4	11.3
Re-imports	HK$ 20.0 bln.	10.4	22.3	16.2	8.3	12.1	10.2
Imports	HK$ 85.8 bln.	11.7	19.1	15.3	9.9	10.1	10.0
Manufacturing Data							
Employment	870 900				11.5	5.2	8.3
Establishments	42 300				12.0	11.6	11.8
Wages	HK$ 48.00/day	8.4	11.9	10.1	6.5	6.2	6.4
Money and Banking							
Bank Deposits	HK$ 88.0 mln.	19.6	21.8	20.7	17.6	14.0	15.8
Bank Loans	HK$ 94.5 mln.	19.1	28.2	23.6	17.1	20.0	18.6
Money Supply M1	HK$ 27.8 mln.	10.8	17.3	14.0	9.0	9.8	9.4
Money Supply M2	HK$ 95.3 mln.	17.4	21.0	19.2	15.5	13.2	14.3
Public Finance							
Revenue	HK$ 16.6 mln.	14.1	20.9	17.4	12.2	13.2	12.7
Expenditures	HK$ 14.2 mln.	11.1	21.5	16.2	9.3	13.7	11.5

[a] Per cent per year.
[b] Initial year in these cases 1961 instead of 1959.
Sources: From various Hong Kong government publications. Summarized from Tzong-biau Lin and Yin-ping Ho, *Export-Oriented Growth and Industrial Diversification in Hong Kong* (Hong Kong: Economic Research Centre, The Chinese University of Hong Kong, 1980), p. 7.

considered of no consequence. There is a substantial budgetary surplus. Domestic exports for 1981 were up by 18 per cent, and re-exports by 40 per cent, over 1980.[22] It is not hard to see why the mood in Hong Kong continues to be one of ebullience.

Nevertheless, a number of clouds are to be seen on the horizon; and on the other hand some new circumstances are arising that, while bidding fair to change the outlook in positive ways, have implications that cannot accurately be gauged at present. A listing of the current preoccupations, both disturbing and encouraging, would have to include the following:

- Hong Kong's "date with destiny" — 1997 — when the New Territories, without which Hong Kong as a whole would have great trouble remaining viable, are due in principle to revert to the People's Republic of China.
- The high cost of oil, on which Hong Kong relies for almost all of its energy needs: the value of imports of petroleum and its products jumped by 60 per cent between 1979 and 1980.[23]
- Pronounced slow-down in the world economy, coupled with a growing tendency towards protection against import competition in most of the colony's foreign markets.
- The challenge to Hong Kong's export trade from Taiwan, Korea, Singapore, and other countries.
- Partly reflecting such troubles, a renewed interest in finding ways to diversify industry and broaden the economic base generally: this issue was the subject of a major official report published in late 1979.[24]
- The tantalizing possibility that China may at last be opening up to the West — clearly a tremendous opportunity for Hong Kong but agonizingly slow in moving from promise to reality.
- A growing doubt in some minds — but so far very few — about the continuing stability of a society still characterized by substantial inequalities.

One might chronicle these challenges and possibilities in any order, but it is perhaps appropriate to deal first with the looming date of 1997 because it inevitably colours all consideration of the longer-term future — and, since some very large-scale investments do not pay off in fifteen years, to a great extent the short-term future as well.

As of the time of writing, there is still confidence that the government of China will not simply terminate the lease unilaterally and seek to take over the New Territories in 1997. There have been, indeed, some encouraging signs that the Chinese have no such intention. After the Governor of Hong Kong, Sir Murray MacLehose, visited Peking (Beijing) for the first time in 1979, the Premier of China, Deng Xiao-ping, told him that investors should "set their hearts at ease" respecting the future of the colony. Moreover, Chinese interests have been heavily involved in property developments in the New Territories (as well as on Hong Kong Island) recently, committing very large amounts of money, and one might think it unlikely they would do this if the land were going to fall under the control of the mainland government in a decade and a half anyway.[25] Even so, China has given no specific indications of its plans on the question, and recent ambiguities have contributed to the uncertainty. It is reinforced by some other factors: for example, Chinese officials negotiating with Hong Kong electric power utilities for supply of fuels or other co-operation have been unwilling to bind themselves to any activity with a fruition beyond 1997.[26] The truth is that nobody knows what the outcome of this issue will be — very possibly the Chinese leaders themselves have not made up their minds — and the resulting doubts are bound to be more than a little disturbing.

Set against the persistent but vague worries about the lease are far more immediate considerations. The escalating cost of oil in the past few years has been an obvious difficulty for any state without its own petroleum resources, and Hong Kong is no exception. Compared to some other countries (including Taiwan and Korea), the colony is fortunately placed by virtue of having very few energy-intensive industries. All the same, its needs are growing rapidly,[27] and it has to be concerned about the effect of the heavy oil bill on the rate of inflation, on the operating costs of firms, and on the balance of payments. There is also some nervousness about supplies; Hong Kong has no refinery at present and relies on shipments of petroleum products from refineries in Singapore, which is bound to raise a question about who would get priority in the case of a serious cut-back or diversion of shipments of crude oil from producing areas.

An ultimate prospect of relief from these dangers lies in the extensive oil drilling now going forward in two regions of China, and especially in that occurring in the immediately proximate areas of the South China Sea.[28] However, even if large quantities of recoverable petroleum should be found, it will be some years before they become available — and of course the reliability of long-term supplies for Hong Kong from this source cannot be guaranteed either.

Accordingly, the administration and affected interests in the colony are urgently seeking ways of reducing oil dependency. The main problem is felt by the power utilities, whose reaction has been to plan for new generation capacity that will utilize coal or be based on nuclear reactors. Both the Hong Kong Electric Company (which operates on Hong Kong Island) and China Light and Power Company (which covers the Kowloon side) are pushing ahead with the construction of facilities using coal — or able to use either coal or oil depending on availability — and are discussing long-term coal contracts with suppliers in China, South Africa, Australia, the United

States, and Canada. Moreover, China Light and Power has prepared a joint feasibility study with the Guangdong Power Company (the Chinese power utility in neighbouring Guangdong province) proposing the building of an 1 800 megawatt nuclear facility in China by 1989 for the provision of electricity to Guangdong and Hong Kong on a shared basis.[29]

The pay-off from these programs will obviously be some time in accruing, and no one can say whether the oil problem may become critical before alternative capacity is in place. Much the same is true of the complex of considerations that is moving Hong Kong to examine with rather greater intensity than hitherto the opportunities for diversifying away from the concentration on a relatively small number of industries, focusing principally on labour-intensive manufacturing, that has characterized its development for many years. The main factors giving rise to this interest are as outlined earlier: first, the current weakness in the world economy and the encouragement that this is providing to protectionist forces in Hong Kong's major markets; and, secondly, the increasing competition in spheres of labour-intensive industrial activity from other countries, mostly also in East Asia, with lower prevailing wage and other costs than Hong Kong. But Hong Kong's concern with diversification goes beyond even those large issues to matters fundamental to the future as it is perceived in business and government circles. The subject deserves treatment in some depth.

What Scope for Diversification?

Hong Kong is possibly the most export-oriented economy in the world. With more than 90 per cent of manufactured goods (whose production represents about a quarter of GDP and occupies over two fifths of the labour force) entering international trade, the colony's dependence on foreign markets exceeds even that of Canada.[30] Although the growth in domestic exports in 1981 was approximately 11 per cent in real terms (and that of re-exports still greater), only slightly down from the 14 per cent real gain in 1980, there are understandable fears about the extent to which this commerce is organized around a handful of industries. Over the past twenty years, some 70 per cent of Hong Kong's gross domestic export receipts have derived from eight groups of commodities: primary textiles, clothing, electrical and electronic products, sundry metal products, precision instruments (mainly watches and clocks), handbags, footwear, and miscellaneous manufactured articles (principally plastic flowers, toys and dolls, and wigs).[31] Moreover, as shown in Table 2.8, throughout that period the categories of textiles and clothing have accounted for over 40 per cent and usually for over 50 per cent of the total.

While textile and clothing exports grew rapidly during the 1960s and most of the 1970s, rising protectionism is now starting to erode

Table 2.8
EXPORT COMPOSITION OF HONG KONG'S DOMESTICALLY MANUFACTURED PRODUCTS, 1959–1979
(percentages)

Product Group	1959	1961	1963	1965	1967	1969	1971	1973	1975	1977	1979
Textiles	18.14	22.76	16.91	16.59	13.97	10.71	10.17	12.08	9.38	7.70	7.27
Clothing	34.75	29.33	36.10	35.27	34.58	36.39	39.74	38.28	44.63	39.73	36.00
Electrical/Electronics	1.53	2.48	3.97	5.83	8.81	10.06	11.21	13.43	13.97	15.52	15.66
(Electronics)	—	(0.44)	(1.77)	(2.55)	(3.13)	(6.96)	(8.89)	(9.94)	(9.79)	(10.53)	(9.87)
Precision Instruments	0.61	0.68	0.76	0.78	1.34	1.74	1.99	2.48	3.91	6.59	9.35
(Watches and Clocks)	(0.22)	(0.14)	(0.13)	(0.16)	(0.64)	(1.03)	(1.27)	(1.50)	(2.82)	(4.84)	(7.79)
Toys and Dolls	3.90	4.56	5.48	7.50	8.30	8.43	8.61	7.72	6.54	7.96	7.47
Plastic Products	3.59	6.77	6.60	5.85	4.90	3.99	3.38	3.53	1.77	2.09	1.91
Sundry Metal Products	5.26	4.12	3.68	3.12	2.99	2.78	2.51	2.68	2.65	2.84	2.75
Handbags	0.70	0.65	0.76	0.92	1.19	1.36	1.66	2.08	1.99	2.03	2.19
Footwear	4.78	3.54	3.81	3.04	3.27	2.80	2.55	1.37	1.12	1.04	0.93
All Other Manufactures	26.74	25.11	21.93	21.10	20.65	21.74	18.18	16.32	14.04	14.50	16.47
Textiles and Clothing	52.89	52.09	53.01	51.86	48.55	47.10	49.91	50.36	54.01	47.43	43.27
Top Three of the Year	58.15	58.86	59.61	59.36	57.36	57.16	61.12	63.82	67.98	63.21	61.01
Top Five of the Year	66.83	67.54	69.06	71.04	70.56	69.58	73.11	75.07	78.43	77.50	75.75

Sources: Computed from *Hong Kong Trade Statistics* (Hong Kong: Census and Statistics Department, various issues), and *Hong Kong Review of Overseas Trade* (Hong Kong: Government Printer, various issues), in Tzong-biau Lin and Yin-ping Ho, *Export-Oriented Growth and Industrial Diversification in Hong Kong* (Hong Kong: Economic Research Centre, The Chinese University of Hong Kong, 1980), p. 79.

such growth. The European Economic Community and the United States, the principal markets for Hong Kong's textiles, have recently entered bilateral negotiations in which the Community wants to cut back Hong Kong's (as well as Taiwan's and Korea's) quotas by 10 per cent in 1982 and 1983, while the United States wants to reduce the growth of textile quotas over the next four years. It is worth noting too that they view with some misgiving the need to renegotiate the three-year Hong Kong–Canada bilateral agreement on textile goods and are decidedly uneasy about what they view as a highly protectionist tone in the report of the Textile and Clothing Board published in 1980.[32]

Even if the world market for textiles and similar items does not contract or even begin to level off, there is the problem of Hong Kong's rising costs and the emergence of a number of new producing countries, of little importance when the colony was beginning to industrialize, as effective manufacturers and exporters of the same sorts of goods at lower prices. According to one source, the mean monthly salary of a semi-skilled worker in Hong Kong was US$312 as of mid-1980, above the $233 paid in Malaysia, $226 in Singapore, and $225 in Taiwan, and substantially higher than the $157 in Thailand, $126 in Indonesia, and $80 in the Philippines (although significantly below the $532 received by a similar worker in Korea).[33] However, such comparisons have little meaning unless combined with figures on relative productivity as well as other factors influencing overall costs. In Hong Kong, one of the cost elements that is rising fastest is that of land. The perennial shortage of land in general, and of industrial land in particular, has caused land values to climb at extraordinary rates. Under the colony's laws, land is owned by the Crown and acquired by users on long leases (in the urban areas seventy-five years); land suitable for industrial purposes is made available by the government, as necessary services are developed, and disposed of through auction to the highest bidder. An analysis of data from such auctions has shown that industrial land fetched an average of HK$105 (less than US$20) per square metre in 1959, HK$877 (US$145) in 1969, and HK$13 876 (US$2 775) in 1979 — an annual compound growth rate over the twenty years of almost 28 per cent.[34]

For years Hong Kong's ingenious industrialists have attempted to economize on the amount of land they need, primarily by developing "flatted factories," one above another, which is feasible so long as the type of activity is appropriate to that expedient. Where it is not, the government has sought to assist by providing land at special rates through the Hong Kong Industrial Estates Corporation. Two industrial estates, at Tai Po and Yuen Long in the New Territories, offer a total of 65 hectares (7 million square feet) of industrial sites to enterprises that cannot be carried on in multi-storey buildings; by

1982 this acreage will increase to about 100 hectares (10.8 million square feet).[35] Even so, the concessionary price of about US$100 per square metre paid in 1978 for a fifteen-year lease on the first plots awarded at Tai Po, while certainly far below the going figure elsewhere in the colony, is said to compare with amounts ranging from US$0.10 (Changwon) to US$12.00 (Seoul) per square metre for land in industrial estates in Korea and similarly advantageous rates for long leases on land in the special industrial districts of Singapore.[36] Land cost is thus a serious factor in the competition situation in Hong Kong.

The Advisory Committee's Report

These and other considerations were examined in detail by the Advisory Committee on Diversification, which was appointed in October 1977 and submitted its report in November 1979. The committee's terms of reference required that policies be based on the necessity to maintain the trend growth rate of the economy in the future, which meant a continuation of annual increases in the 6 to 9 per cent range, in real terms, in the gross domestic product.[37]

Taking the various demand and supply constraints into account, the group suggested in its report that average annual rates of real growth in exports of textiles and clothing over the period 1979–1982 would be about 5 to 6.5 per cent, as compared with almost 8 per cent (but gradually declining) over the previous decade.[38] It forecast average real yearly growth of other major exports as follows: 5 to 9 per cent for electronic products (which it admitted might be far too conservative), in contrast to a sharply decelerating trend averaging 22 per cent per year in 1968–1978; 2 to 4 per cent for plastics and toys, against a very uneven 3.5 per cent a year over the earlier period; and 6 to 10 per cent for all other manufactures (higher for watches and clocks, electrical appliances, and optical and photographic goods, lower for footwear and miscellaneous manufactured products), compared to a quickening 8 per cent per year averaged in the ten prior years.[39] The overall rate of increase in exports indicated by these estimates would be between 5 and 8 per cent, with the likelihood that the upper end of the range might be closer to reality than the lower. Re-exports were felt likely to grow more rapidly — at perhaps 9 to 13 per cent — making the forecast real growth rates for total exports of goods some 6 to 9 per cent.[40]

On the evidence of past relationships between rates of increase in gross domestic product and in exports, the committee concluded that a 6 to 9 per cent annual expansion in foreign shipments of goods would be barely sufficient, at best, to sustain the performance of the economy it had been asked to ensure. Moreover, it explored the prospects for significant enlargement in the role of the service sector, including tourism, transport services, and the whole broad field of financial and commercial activities that have been such a feature of Hong Kong's recent development, and it inferred that their growth would be insufficient to make up the export shortfall.[41]

The accuracy of the committee's assessment is naturally open to question. As the group itself would certainly be ready to admit, any predictions about an economy as dynamic as Hong Kong's may very well fail to anticipate the energy and imaginativeness of entrepreneurs faced with a new challenge. Expectations as to the growth in output and foreign sales of the electronics industry, for example, may turn out to be hopelessly inadequate. That industry, which started out twenty years ago with the assembly of radios from imported parts, is now involved in the production of television sets and a wide range of radios, stereo equipment, tape recorders, computer components and parts, semi-conductors, monolithic chip capacitors, integrated circuits, and other items, and has lately begun to develop electronic ignition systems for automobiles, microprocessor-controlled die bonding machines, automatic thread-cutting devices, and the like.[42] Another new occurrence is the initiation of large-scale output of colour television receivers, using in the first phase the PAL system for export to Europe and China. This is seen as a step toward the eventual manufacture of other visual items such as video recorders and computer terminal displays.[43]

It is perfectly possible, therefore, that the electronics sector may soon take off again. In 1975 it constituted 460 factories employing 52 000 workers and exporting HK$2 757 million (US$560 million) worth of products, and by 1979 that had become 1 075 factories with 90 000 workers and exports valued at HK$9 664 million (US$1 933 million).[44] Whereas recent trends have suggested some topping out of this expansion, perhaps it is merely a pause prior to fresh impetus from products and processes beginning to emerge in the world market-place.

If the potential for miscalculation (or undue conservatism) is obvious in the predictions about this industry, a similar risk of inaccuracy certainly exists for others. There is potential for whole new industries, such as those manufacturing optical goods and scientific instruments that are now growing very rapidly in Hong Kong. One should not, therefore, attach undue importance to the particulars of the committee's forecasting exercise. More significant and interesting is the broad thrust of the report, with its clear implication that Hong Kong may no longer be able to operate quite as completely as hitherto on the *laissez-faire* principle — it has long been seen as one of the most unregulated economies in the world — but that government may have to fulfil a somewhat more active function in economic planning. Although the report's recommendations have not been adopted as official policy, and much lively discussion is going on with respect to the overall philosophy it projects,[45] the likelihood seems to be that at least some of the thinking in the document will be translated into government programs henceforward.

The review of relevant government policies that is the basis from which the report formulates its recommendations has seven main sections: they deal with land, financial and related facilities, education and training, industrial development, trade promotion and industrial investment promotion, the conduct of Hong Kong's external commercial relations, and some miscellaneous issues. By far the most important are those covering land, and education and training. Indeed, of the forty-seven recommendations, nine are concerned with land and sixteen with education and training.

Although no such idea is ever articulated, one may deduce from the list of recommendations that the committee recognizes the intrinsic participation of the government, even now, in certain transactions generally professed to be at the behest of market forces; and it also perceives, again without expressing the thought openly, that a failure by the state to intervene in some economic processes will give rise to a less than optimum allocation of society's total resources. The former of these notions is implicit in the report's proposal that its projections with respect to the requirements of industrial land should be established as targets for government policy: since all land is owned by the Crown, this recommendation is saying, let us accept that government in truth has a huge influence over land costs and should accept that fact and manage the amount of land coming up for auction according to a careful estimate of future economic needs. The latter concept emerges from a discussion of the shortages of skilled manpower and a call for public programs to upgrade worker training: this argument reflects the realization that, if the social benefits of having a well-trained labour force exceed the purely private gains, reliance on individual businesses to provide training will ensure an under-supply.[46]

Along with these intriguing hints of future change, however, the committee's report shows an evident conclusion that opportunities for breaking away into completely new spheres of industrial development are not present — or at any rate have not appeared in the group's very thoroughgoing investigations. The emphasis is on improvement in existing lines of endeavour, subject to evolution occurring spontaneously over time, through enhanced technology, more sophisticated skills, better use of scarce factors, strengthened sales and investment promotion, closer liaison between universities, businesses, and relevant government departments, and a concerted effort to move "up market" as regards creativity, fashion, and product elaboration in response to every contemporary possibility. What the committee is suggesting is that its own estimates of the growth in established industries can be significantly exceeded if Hong Kong directs its development forcefully, aided by government initiatives, toward the frontiers of technology and design, which are now the evident areas of comparative advantage for an economy that is no longer low cost.[47] The proposition is not especially novel, but, given the care that went into its enunciation, it could give valuable leadership to policy making over the coming years.

For those looking at the colony from abroad, the committee's report offers most useful pointers as to the direction in which a nominally unplanned economy may head in the future. There are lessons to be drawn for foreign importers, exporters, investors, and providers of services of various kinds, as well as for others whose fortunes are affected by what is done by the people engaged in international commercial relationships. Canadians are to be found in each of these categories.

The China Connection

To all speculation about the prospect for Hong Kong there is always an extra wrinkle — a "wild card" in the pack capable of altering the whole game in untold ways. It is that the new determination of China to stress modernization and downplay ideology could create enormous opportunities for the diminutive but eminently modern Chinese society that sits on the doorstep of that slowly awakening giant. Among most informed observers the expectation at present is that China will be held back for a long time yet, whatever the aspirations of its new regime, because of a great number of shortcomings in the economy and how it is run. The country's infrastructure is relatively primitive, its work-force is for the most part woefully lacking in technical skills, capital, and foreign exchange, while its bureaucracy is inefficient and stifles virtually all initiative and enterprise. Thus it would be foolhardy to imagine that development in China can be rapid and that Hong Kong is about to experience a bonanza by virtue of a sudden explosion of demand from that source for the colony's goods and services.

Nevertheless, as time passes the Chinese connection will undoubtedly begin to yield dividends, of several kinds. Some of them are starting to appear already.

The most substantial advantage likely to be secured by Hong Kong from China's changed policy, within the relatively short term, is the chance to have certain of the more labour-intensive operations in a manufacturing process carried out at a Chinese location by workers earning far lower wages. Much of this activity will take place in the province of Guangdong, adjacent to Hong Kong, where the Chinese are wooing outside interests through the creation of a series of "special economic zones" providing incentives to foreign investors. For the three initially established — at Shenzhen, Zhuhai, and Shantou — the indications are that tax rates will be set at levels below those prevailing in Hong Kong, duties on imported inputs will be largely waived, and all "legitimate" after-tax profits will be allowed to return to the investor's home base.[48] So far, though, these arrangements have not been spelled out at all precisely; moreover, the experience of many Hong Kong industrialists who have entered agreements with the Chinese for production in the zones has been rather frustrating because of bureaucratic delays and poorly motivated workers. However, most seem to believe that eventually these schemes will succeed, providing Hong Kong with a way of mitigating to some extent the serious cost pressures referred to above.

More generally, the prospect of deepened commercial relationships with China excites Hong Kong because it is widely felt that the Chinese, everywhere in the world, would prefer to deal with each other rather than with foreigners. As the closest available community of "overseas Chinese" having good contacts in the West, impressive expertise in organizing capital ventures, and an understanding of European and North American business methods and capabilities, Hong Kong's immensely astute entrepreneurial élite is equipped as no other for a major role in assisting the development of the mother country.

Having regard for these possibilities, the colony's administration has approved the upgrading of transportation and communications links with China, including the inauguration of direct airline services (in 1979), the establishment of regular truck and container traffic (in 1980), and the double-tracking and electrification of the railway to the border (now under way). It is also said to be considering the idea of providing a site for a logistical support base to service the oil exploration activity in the South China Sea and debating the merits of building an oil refinery that could use Chinese crude if and when supplies became available — both projects recommended by the Advisory Committee on Diversification.[49] And it is doubtless giving its blessing to all manner of reconnaissances of China's needs and interests, which in course of time could serve to offer scope for the talents of the colony's businessmen. These explorations should be watched by outsiders also, for it is through Hong Kong that a large proportion of foreign economic connections with the Chinese are likely to be effected; as far ahead as can be seen, any firm in the Occident wishing to investigate openings in China would do well to start by establishing some kind of presence in Hong Kong.

Keeping Confident Under the Sword of Damocles

One should end this appraisal of present trends and coming prospects much as one began, wondering whether the self-confident atmosphere of Hong Kong today is really in large part self-delusion. What is going to happen when the lease of the New Territories ends in 1997? *The Economist* of London has commented that the possibilities range

> . . . from Chinese insistence, and immediate British agreement, on handing everything over (wildly unlikely), to a deal (very possible) by which Britain ceases to recognise the lease, while China says that Britain can go on administering Hongkong for a while, a generation or so perhaps, while a final solution is found to what the Chinese claim is a grave historical injustice.[50]

Although clearly up to now the inherent risks facing investors in these circumstances have only slightly deterred them, it is an open question how long such uncertainty can continue before people start moving their money out in significant volumes. A reasonable guess may be that the critical time will come in the mid-1980s, simply because that is the deadline a lot of businessmen are now setting in their minds for a political decision that can leave them knowing where they stand. The next few years, therefore, are likely to be crucial to the future of this extraordinary place.

Those years may also be important in determining whether the social stability that has prevailed among a crowded and often harassed population can likewise be maintained. The prosperity and contentment of the growing middle class is undeniable; average annual earnings are now approximately US$3 000 — the third highest in Asia, behind Japan and Singapore. But disparities are great, the cost of housing is putting an increasingly intolerable burden on many poorer families, social security is far from generous, and the dominant position of the British colonial administration and super-rich Chinese economic hierarchy represents a source of resentment that may spread if economic conditions ever weaken.

In sum, there are several reasons why the outlook for Hong Kong should cause the observer some foreboding. However, such is the perversity of human nature — plus the notorious capacity of this particular community to thrive on minimal opportunity — that most international opinion remains bullish about the prospect. No one who has visited the city-state in recent times could fail to share that optimism in substantial measure.

Hong Kong and the World in the 1980s

Implications of Current Trends for Future Exports

From the foregoing an impression should emerge that gives at least some general impressions of the prospect for any foreign businessman wishing to trade with or invest in Hong Kong, as well as for other economic interests concerned about such trade and investment flows.

The most important features of this overall impression relate to the structure of production and exports. Hong Kong's economy will probably remain rather heavily oriented toward textile-products manufacture for some time. However, there will be a steadily growing emphasis in the future on the more sophisticated elements of that industry and of other higher-technology activities that will gradually overhaul if not replace it. The principal new fields of growth will be in the electronics industry and the sectors involved in making photographic apparatus and supplies, optical goods, scientific equipment, watches and clocks, and so forth.

The speed of the relative shift away from textiles and clothing will be in part a function of the role of government, which may become somewhat more actively involved in the planning of structural change henceforward, either directly or in any event through a purposive use of its power to affect the supply of land and to influence the quality of the emerging work-force. Other major factors — though these retard the change — will be the success of efforts by China to provide Hong Kong with an opportunity to continue labour- and land-intensive industrial processes without losing its competitive edge, and the success of Hong Kong's attempts to become "the Paris of the Far East" in respect of fashion and design excellence in clothing. Even so, the progressive transformation of Hong Kong's industrial structure seems destined to take place whatever happens in these two respects.

An obvious inference to be drawn from such indications is that firms and workers in developed countries' textile and clothing industries may have less to fear from Hong Kong a few years hence than they do now. In Canada, this prospect would be especially welcomed in Quebec, where textiles and clothing account for a large proportion of manufacturing employment. Any comfort that might be derived from such a conclusion ought to be qualified, however, by the fact that Hong Kong's move is partly into high fashion. And, in so far as it is away from the textile field, the change represents a recognition of the increasing capability of other industrializing nations to supply world markets with relevant products at lower cost. Nevertheless, so far as imports from the colony are concerned, there will doubtless be an alteration in points of impact: the areas of advanced countries' manufacturing sectors facing competition from Hong Kong's goods will be less the "traditional" industries, such as standard textiles, clothing, and footwear, and more the "modern" sectors like electronics, scientific instruments, and the rest.

Many of these latter industries will be ones that have in recent times been encountering increasing competition from products imported from Japan — and indeed in some spheres the main effect may well be a battle for markets between Japanese suppliers and those from Hong Kong rather than any added pressure on the home manufacturer. But this depends, of course, very much on prices of similar items from the one source relative to the other and from each relative to prices of domestic output. In some receiving countries the principal locations of firms and labour forces impacted by the new competition will be different from those of the enterprises and workers hit by present imports from Hong Kong; and, further, the characteristics of the affected businesses (with regard to ownership, style of management, and size of plants) and of the employees put at risk (as concerns age, sex, levels of education, and so on) are likely to be different also. If the penetration of Canadian markets by Japanese manufactures during the 1970s is any guide, for this country the new effects will be felt more in Ontario and less in Quebec than the present ones; further, any jobs threatened will be held by people likely to be in the prime ages (rather than either old or young), to be male, and to be comparatively well educated as against the somewhat older, more heavily female, and rather poorly educated work-force that tends to characterize "traditional" industries.[51]

The responses of firms in advanced nations to the challenge posed will vary according to circumstances but will doubtless involve, as they have in the past, either pleas for import protection, on the one hand, or a search for means of improving their products or developing new products that will appeal to consumers more than the Hong Kong item, on the other. (In many cases, of course, there will be elements of both.)

As to the first of these aspects, attention will most likely focus on the fact that Hong Kong is customarily classed as a developing economy and therefore receives special treatment in most advanced nations' import tariff schedules under the so-called "Generalized System of Preferences" (GSP). Although there are other countries with higher per capita national incomes that are eligible for the GSP, Hong Kong is the richest of the big manufactured-goods exporters in this privileged group.[52] So far as Canadian firms and workers are concerned, moreover, there is the fact that prima facie Canada appears to be a good deal more generous in its provision of GSP advantages to Hong Kong than are most nations, since the colony gets preferred access to the Canadian market for about a third of its sales here, compared to an average of 9 per cent across the major OECD countries as a whole.[53] (It should be noted, though, that the *extent* of the preference is not necessarily the same in Canada as elsewhere.)[54] Accordingly, there may well be concerted efforts to have Hong Kong's position changed with respect to such a tariff advantage. Even if so sweeping a change is not aimed at, petitions for exemption of individual products from the GSP system will no doubt be presented.

No one can say what might be the outcome of these endeavours, or of other attempts at widening the base of the protective arrangements existing in advanced countries' commercial-policy armouries. If the current slow-down in the world economy continues for much longer, it will clearly be more and more difficult for national governments to resist the temptation to raise import barriers. In particular, the problems of industrial weakness and unemployment may make imports from "low-wage" countries a sore spot, encouraging the resort to higher tariffs or to a broadening of the quotas and other non-tariff mechanisms already devised to deal with competition in sensitive industries. This is not the place to discuss the wisdom of such measures.

In regard to hopes for product improvement and innovation, the story of European and North American firms faced with Japanese import competition over the past decade or more has shown something of what can be expected. Japan has made great inroads in the markets of other developed nations, but there have been notable examples of an ability to fight back. This is part of the reason why, while many industries in those countries have suffered considerable set-backs as a result of loss of markets to the Japanese, relatively few have been really seriously and permanently damaged. In Canada, manufacture of television sets appears to be the only leading industrial activity to experience from this source a fundamental detriment that has totally jeopardized its capacity to recover.[55]

There is nevertheless a tendency to be pessimistic about the capacity of developed countries to find areas of comparative advantage when sophisticated manufactured goods start to enter their markets from places like Hong Kong, because the combination of relatively low labour cost and increasingly elaborate technology seems to be unbeatable. Almost certainly, however, the industrial base of Hong Kong is too narrow to allow for a range of exports that could pose any such general threat. What may be expected to occur, over time, is a redeployment of activities within broadly defined sectors like electronics — which of course encompasses a very rapidly expanding field, fast becoming a complex of industries rather than a single entity — with individual countries developing specialized lines of product distinguishable in specifications or potential uses from those manufactured elsewhere. Even so, it seems certain that some significant adjustments will be required by industry in advanced nations, including Canada, in order to accommodate to the competition in particular spheres that Hong Kong will be able to mount.

Prospective Markets in Hong Kong

The reverse of the coin of import competition is opportunity for exports, and here it is possible to be somewhat more specific. Because Hong Kong is such a small territory without heavy industry, the market it presents for primary commodities, although interesting, is not large. Nevertheless there are increased sales of coal to be made to the colony's two electric power utilities, which are finding that they cannot obtain adequate supplies from China and are concerned to diversify their sources in anticipation of the switch to coal for a major proportion of their needs in the future. Other energy-related products, like fuel oil and kerosene, also offer good possibilities in the Hong Kong market, as Canadian firms have recently been discovering. There are limited opportunities for some agricultural commodities, but the best chances for selling farm products lie in specialized processed foods for an increasingly affluent consuming population.

In other areas the possibilities are still more apparent. One of the features of Hong Kong's current development, as has been mentioned, is the huge expansion in building construction, both for residential and for business (office and factory) uses. This growth may slow down as 1997 approaches, depending on what happens in regard to the lease; but meanwhile there is a strong market for building supplies and equipment, as well as for furniture and office and plant accessories of many kinds. Moreover, the enlargement of the colony's role as a regional financial and commercial centre is giving rise to a call for the very latest in communications systems, computers and related "peripherals" (hardware and software), and all the devices that go with modern office technology. Additionally, the expansion and upgrading of factories is leading to an active demand for items like materials handling equipment and packaging machinery, while the exceptionally fast growth of electronics into new fields makes for opportunities for foreign suppliers of machinery and equipment employed in the production, handling, and testing of electronic goods.

As to consumer products, despite (or perhaps because of) the development of photographic equipment manufacture in Hong Kong, the market is good for certain specialized photographic apparatus and supplies, and the existence of a local toy industry has not prevented the growth of the market for toys and games. Books, magazines, and other publications sell well. There is among the increasing ranks of middle-class youth a craving for all the usual products of popular culture that their North American, European, and Japanese opposite numbers acquire in quantity.

In the realm of public spending, the expansion of hospital services suggests a requirement for health care equipment, while the railway and other infrastructural improvements could give outside suppliers of relevant capital goods and associated accoutrements and supplies a chance to bid. If the government accepts the idea of building an oil refinery and establishing a logistical support base for the South China Sea oil exploration, further opportunities for tendering should certainly emerge.[58]

Finally, the opening up of China is likely to make for various indirect demands by Hong Kong interests for foreign goods and services. Already the tourist business in the colony is blossoming, thanks in large measure to the fact that Hong Kong is the jumping-off spot for most travellers going to China, and that is creating a demand for everything from hotel and restaurant equipment to the services of catering specialists and entertainment personalities. The larger prospect is that Hong Kong entrepreneurs may put together some of the packages of materials, equipment, and advisory skills that are required by China in its modernization program. If that is so, the accent will be on accessories for the building up of basic infrastructure, such as roads, railways, telecommunications systems, and the like, as well as on the wherewithal to develop more effectively China's coal mines, oil wells, and other basic resource industries, its electric power network, and in general the fundamental elements necessary to lay the foundations of an industrial state.

Hong Kong's pivotal position *vis-à-vis* China is one more reason for its elevation into an economy that deals as much in services as it does in things, and thus the businessman looking at the colony from abroad will see great scope for sales of intangibles — consulting time offered by engineers, financial experts, product designers, fashion innovators, market researchers, computer-systems professionals, and people trained in a wide variety of other high-level skills, some of them quite esoteric. The little territory is becoming one of that handful of crucial world focal points that practices virtually a complete range of tertiary industrial functions.

Opportunities for Others to Invest

Beyond the scope that exists for export sales to Hong Kong, there is the possibility of investing in production or other business ventures in the colony, which invites such activities by foreign enterprises. Already, as we have observed, there are numerous direct investments in a variety of fields, and the trend seems likely to continue. Multinational companies are much more pervasive in areas like electronics and optical apparatus than they are in clothing and footwear, so, as the former types of industry grow more rapidly than the latter, the amount of non-resident involvement in Hong Kong should increase.

On the face of it, Canada might seem susceptible to loss of position as a consequence of this kind of movement into Asia by the multinationals. As a "branch-plant economy" it has few multinational firms of its own, and thus it is somewhat at the mercy of corporate planners abroad who may decide to alter the standing of their Canadian operators for better or for worse depending on the international logistics and comparative costs of the global enterprise. It is hard to say whether the fact that the big multinationals are in many cases well entrenched in Canada represents a source of strength or weakness at a time when new branch plants are appearing in places like Hong Kong. Be that as it may, in the dynamic and fluid state of those realms of technology that the colony is now entering — fields like computer systems and microprocessor applications — Canada is by no means always at a disadvantage. While the relevant firms in this country are mostly fairly small, many in fields such as telecommunications, computer services, and the like are technically very advanced and competently run, and several have become multinational within a decade of their formation. It would seem entirely feasible for some of these companies to set up operations in the Far East, either for supplying that region alone or for exporting to other parts of the world if the economics of the situation made that a sound way to develop. We have already mentioned the establishment in the colony of offices of the Canadian high-technology firms Northern Telecom, Mitel, AES Data, and I.P. Sharp, which indicates the interest of these concerns in the region.

In any event, the spheres of greatest investment opportunity for foreign firms are of considerable relevance. A promising guide is the list of activities being especially encouraged by the Hong Kong Industrial Estates Corporation:[57]

- Light- and medium-heavy engineering industries producing such goods as watches and clocks, office machines, packaging machines, photographic and optical goods, precision instruments, light industrial engines, automotive components, domestic appliances, machine tools, etc.
- Industries providing high-quality sophisticated goods such as metal-casting, extrusion, forging, electroplating, tool and die casting, precision machining, heat treatment, etc.
- The electronics industry producing sophisticated goods such as computers, industrial automation controls, advanced consumer electronic goods, television sets, audio video systems, telecommunications equipment, microprocessors, printed circuit boards, electronic modules, integrated circuits and other electronic components, etc.

Needless to say, over and above these opportunities for investment in manufacturing activities there is scope for foreign investments in financial, commercial, professional, consulting, and other endeavours, of a variety as broad as one would find in Toronto or Montreal — and indeed in some respects even broader because of Hong Kong's status as a regional metropole. The potential for such a range of undertakings is difficult to express in a rather brief overview like this and must therefore perforce be left for the reader to infer from what has gone before. Equally impossible to summarize adequately here are the ramifications, in terms that could translate into investment possibilities in Hong Kong, of what is going on in China. One may only repeat that the Chinese are clearly interested in barter, processing agreements, and joint ventures to bring Western technology to bear on their immense problems, and that China continues to require Hong Kong's expertise as a trading and banking centre and the focus of a network of contracts around the world. Though these interests will almost certainly be slow, as we have said, in generating really substantial business for foreign firms, the time to set up a Hong Kong listening post seems to have arrived. It is perhaps worth reporting the observation of many Canadian residents of the colony that their countrymen are apparently less energetic than the competition in investigating Chinese business opportunities.

Notes

[1] Theodore Geiger assisted by Frances M. Geiger, *Tales of Two City-States: The Development Progress of Hong Kong and Singapore* (Washington, D.C.: National Planning Association, 1973, revised 1979), p. 68.

[2] *Ibid.*, p. 69.

[3] *Ibid.*

[4] Cheng Tong Yung, *The Economy of Hong Kong* (Hong Kong: Far East Publications, 1977), pp. 41 and 45.

[5] *Ibid.*, p. 370, and Geiger, *op. cit.*, p. 69.

[6] Cheng Tong Yung, *op. cit.*, p. 174.

[7] Organisation for Economic Co-operation and Development, *The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures* (Paris: OECD, 1979), p. 19.

[8] *Hong Kong Trade Review, 1980* (Hong Kong: Research Department, Hong Kong Development Council, 1981), and *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 361–62.

[9] *Ibid.*

[10] *Hong Kong Trade Review, 1980, op. cit.*, p. 12; *Yearbook of International Trade Statistics, 1972–1973, op. cit.*, p. 357.

[11] *Imports by Countries* (Ottawa: Statistics Canada, January-December 1979, January-December 1980, and other issues).

[12] R.A. Matthews, "Canadian Industry and the Challenge of Low-Cost Imports," Discussion Paper No. 172 (Ottawa: Economic Council of Canada, 1980), pp. 30 and 182.

[13] Cheng Tong Yung, *op. cit.*, p. 191, and accompanying *Statistical Supplement on Latest Development*, p. 3; and *Hong Kong Trade Review, 1980*, *op. cit.*, p. 17.

[14] Cheng Tong Yung, *op. cit.*, and *Statistical Supplement . . .*, *op. cit.*, p. 4; and *Hong Kong Trade Review, 1980*, *op. cit.*, p. 18.

[15] *Exports by Countries* (Ottawa: Statistics Canada, January-December 1979, January-December 1980, and other issues).

[16] These points should not be interpreted as implying that the British own all the wealth of Hong Kong. Quite the contrary: many Chinese families are spectacularly rich and there is a large, prosperous middle class.

[17] Chen Tong Yung, *op. cit.*, p. 67.

[18] *Investing, Licensing & Trading Conditions Abroad: Hong Kong* (New York: Business International Corporation, November 1980), p. 3.

[19] Louis T. Wells, Jr., "Foreign Investment from the Third World: The Experience of Chinese Firms From Hong Kong," *Columbia Journal of World Business* 13 (Spring 1978): 39–49.

[20] "Hong Kong Charges On," *Far Eastern Economic Review* (6 March 1981), pp. 54–55.

[21] *Half-Yearly Economic Report 1980, ibid.*, pp. 45–55; and *Third Quarter Economic Report 1980, ibid.*, pp. 28–36.

[22] *Hong Kong Review of Overseas Trade in 1980* (Hong Kong: Census and Statistics Department, 1981), p. 21.

[23] *Ibid.*, p. 19. This problem has been moderated by the 1981–1982 oil glut, but not fundamentally changed.

[24] *Report of the Advisory Committee on Diversification* (Hong Kong: Government Printer, 1979).

[25] Mary Lee, "Mighty City's Heavenly Hopes," *Far Eastern Economic Review* (12 September 1980), p. 48. However, it is always conceivable that the Chinese are simply speculating in Hong Kong's property boom and plan to sell out their shares in these ventures before 1997.

[26] Conversation with staff member of Hong Kong Electric Company. However, a group of British banks has extended a loan of US$1.2 billion to China Light and Power Company with a maturity well into the 21st century, indicating that they are optimistic about the colony's future status.

[27] The colony's two electric power utilities, Hong Kong Electric Company and China Light and Power Company, which account for the great bulk of oil imports (and which at present are wholly dependent on oil for generation), estimate the growth in demands on their systems at 10 per cent and 15 per cent per year, respectively. (From conversations with officials of these companies.)

[28] Anthony Rowley, "Cashing In On China's Oil Boom," *Far Eastern Economic Review* (14 November 1980), pp. 52–54.

[29] This study is referred to in *China Light & Power Company, Limited: Annual Report 1980*, p. 9; a ceremonial signing of the study's report by the general manager of the Guangdong Power Company and the chairman of China Light and Power was the subject of enthusiastic articles in the Hong Kong press in mid-December 1980 (for example, "N-Plant Is Almost a Certainty," *South China Morning Post* (12 December), p. 1, and "Guangdong-Hong Kong Study Urges Nuclear Power Plant," *The Asian Wall Street Journal* (13 December 1980), p. 6). It should be noted that the nuclear station's 1800 megawatt capacity would be double the power now available in Guangdong province but would augment by only 40 per cent the 4600 megawatts that will be generated from non-nuclear sources in Hong Kong when current installations work is completed.

[30] As of 1978, exports per capita by Hong Kong were valued at just under US$2500, whereas those by Canada were worth a fraction over US$2000; the comparable figures for some other countries were Britain $1300, Japan $860, the United States $660, Taiwan $750, and Korea $340. (These amounts are derived from data published in the *International Financial Statistics* of the International Monetary Fund.)

[31] Tsong-biau Lin and Yin-ping Ho, *Export-Oriented Growth and Industrial Diversification in Hong Kong* (Hong Kong: Economic Research Centre, The Chinese University of Hong Kong, September 1980), pp. 17–18.

[32] *Textile and Clothing Inquiry: Report to the Minister of Industry, Trade and Commerce by the Textile and Clothing Board*, Volumes 1 and 2 (Ottawa: Minister of Supply and Services Canada, 1980).

[33] Data developed by Business International Asia/Pacific, Hong Kong, 1980, mimeo.

[34] Tsong-biau Lin and Yin-ping Ho, *op. cit.*, p. 59, citing figures from the Land and Survey Office of the Public Works Department and "A Study of Land Values in Hong Kong," *Hang Seng Economic Quarterly*, Hong Kong (April 1980), p. 7.

[35] *The Hong Kong Industrial Estates Corporation: Annual Report 1978 – 1979*, p. 5.

[36] Tzong-biau Lin and Yin-ping Ho, *op. cit.*, p. 61.

[37] *Report of the Advisory Committee on Diversification*, *op. cit.*, pp. 7 – 11 and pp. 170 – 71.

[38] *Ibid.*, pp. 56 – 59.

[39] *Ibid.*, pp. 78 – 80.

[40] *Ibid.*, pp. 173 – 74.

[41] *Ibid.*, p. 175.

[42] *Hong Kong Trade Review, 1979* (Hong Kong: Research Department, Hong Kong Trade Development Council, April 1980), p. 115.

[43] "Video Industry Faces Major Technical Leap," *Business Standard* (Financial and Economic Section of the *Hong Kong Standard*), Hong Kong (10 December 1980), p. 1.

[44] *Hong Kong Industries 1980: Electronics* (Hong Kong: Industrial Development Division, Trade, Industry and Customs Department, 1980).

[45] For instance, Ho Kwon Ping, "A Hesitant Boost for Planning," *Far Eastern Economic Review* (28 December 1979), p. 34, and Edward K.Y. Chen, "Industrial Diversification in Hong Kong," a speech to the Rotary Club, Hong Kong, 7 January 1980. (The former of these two appraisals commented, "When the pink-covered report lands on Governor Murray MacLehose's desk, Adam Smith may well turn in his grave.") Sir Philip Haddon-Cave, the Financial Secretary, has also entered the fray, coining the term "positive non-interventionism" for what he perceives to be the government's preferred operating stance. (Speech to Federation of Hong Kong Industries, 2 December 1980.)

[46] Tzong-biau Lin and Yin-ping Ho, *op. cit.*, p. 54.

[47] This line of thinking is becoming the "conventional wisdom" in Hong Kong. The selection criteria for firms seeking sites on the industrial estates at Tai Po and Yuen Long give some preference to processes that, compared with existing Hong Kong manufacturing industry, have certain other characteristics, prominent among which are: being significantly new and/or producing significantly new products; involving a higher level of technology; providing employment at a higher level of skill. (*The Hong Kong Industrial Estates Corporation: Annual Report*, *op. cit.*, p. 12.) The press, too, frequently carries articles about the need to shift up market in clothing, electronic apparatus, engineering products, etc.

[48] Pauline Loong, "Special Zones, Special Rules," *Far Eastern Economic Review* (12 September 1980), pp. 56 – 59.

[49] *Report of the Advisory Committee on Diversification*, *op. cit.*, pp. 167 and 326.

[50] "Chinatown: A Survey of Hongkong," special supplement to *The Economist* (6 December 1980), p. 6.

[51] Roy Matthews, *Challenge from the Third World: A Threat to Canadian Industry and Workers?* (Toronto: Canadian Institute of International Affairs, "Behind the Headlines" series, January 1981). A more detailed analysis of the penetration of the Canadian market by Japanese goods is contained in R.A. Matthews and A.R. Moroz, "The Impact of Imports from Japan on Canadian Manufacturing," in *Canadian Perspectives on Economic Relations with Japan*, edited by Keith A.J. Hay (Montreal: The Institute for Research on Public Policy, 1980), pp. 207 – 68.

[52] *The Generalised System of Preferences and the Canadian General Preferential Tariff*, a background paper by G.H. Forrester and M.S. Islam (Ottawa: The Tariff Board, August 1979), pp. 80 – 83.

[53] *Ibid.*, pp. 35 and 141.

[54] Some countries afford duty-free access to almost all the relevant imports under GSP; about a half of Canadian purchases from Hong Kong get in without paying any duty.

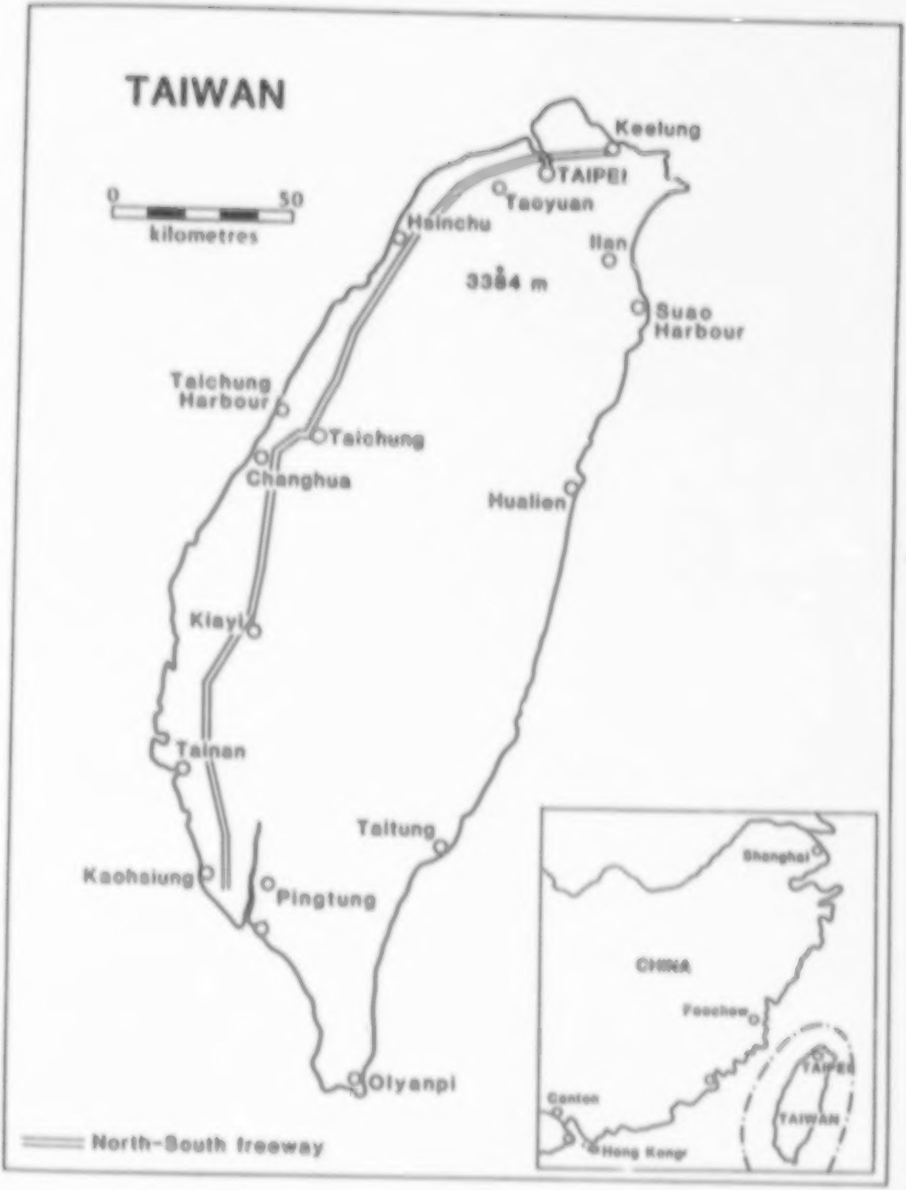
[55] Matthews and Moroz, *op. cit.*

[56] A most useful assessment of export prospects was contained in some materials issued by the U.S. Department of State in February 1980 (based on a report from the Consulate in Hong Kong), which listed 81 manufactured products felt most likely to be good potential sales items in the colony over the next three years. While space limitations prevent us from listing the entire 81 products here, the following indication of their grouping by major category will give a sense of where they are to be found: building supplies and equipment 11, electronic components 9, business equipment 6, computers and peripheral equipment 6, consumer goods 18, electronics industry production and test equipment 9, hotel and restaurant equipment 4, materials handling equipment 8, packaging equipment 5, health care equipment 5. (It is perhaps of interest that the documentation included data on Hong Kong's imports of over a hundred items in these ten categories in earlier years, showing in each case the countries that were the four biggest suppliers. Canada got into the first four just six times, compared (for example) to fifteen for the Netherlands, thirteen for Australia, eleven for Switzerland, and six for Sweden.)

[57] Mimeo material provided the author by an official of the Corporation.

Part Three

Taiwan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Shanghai
CHINA
Foochow
TAIPEI
TAIWAN
Canton
Hong Kong

Taiwan

A Satellite Cast Loose

From the Chinese and Japanese Empires to Autonomy

Like Hong Kong, Taiwan has been much influenced over recent historical times by both China and Japan. Nevertheless, the nature and timing of the influences have been quite different. Traditionally a Chinese province, whose people's institutions and life-style were very similar to those on the mainland, Taiwan was a sleepy feudal society with a largely subsistence economy until the Japanese take-over in 1895. Although Japan's rule from that year to 1945 was repressive and sometimes brutal, it gave rise to a number of changes that laid the basis for subsequent economic development. Virtually from the beginning, the colonial authority initiated land reform, improved the transportation and communications facilities, streamlined public administration, and promoted efficient production of sugar and rice for export to Japan. In the 1930s Taiwan's evolution was allowed to quicken further through introduction of the cultivation of essences, fibres, and other industrial raw materials, some processing of these commodities, and the establishment of several metallurgical and chemical enterprises based on local and imported inputs and the island's low-cost hydro-electricity, which was harnessed by extensive power projects in this period.

Thus by the end of the Second World War, the archaic organization of Taiwanese agriculture had given way to a more progressive system open to new techniques, a labour force hitherto skilled only in farming had acquired education and some opportunities for other employment, and the combination of increased mobility and some industrial growth had spread "modern" attitudes of mind among the population in all parts of the territory.

Restoration of the link with China in 1945 threatened major dislocations and even economic collapse. However, the appointment of a strong new governor, occurring just about the time that defeat of Chiang Kai-shek's armies in China in 1949 effectively severed the island again from the mainland, enabled Taiwan to escape the financial breakdown that threw the Chinese economy into turmoil at the close of that decade. Monetary reform and a well-conceived effort at overall economic stabilization succeeded in providing the island with a reasonably sound basis for its first experience as an autonomous entity on the world stage.

The story of Taiwan in the years since then diverges sharply from that of Hong Kong in one particular respect: whereas the British colony prides itself on operating with a minimum of governmental direction, Taiwan has pursued a development path substantially guided (though not coerced) by indicative planning. The Taiwan Production Board, later absorbed into the Economic Stabilization Board, and various other boards and commissions have played a key role in the formulation of policy for the whole economy, including the structure of its industry and the focus of its overseas trade.

Very early on in the life of Taiwan as a separate economy, its leaders and their technocrats decided that a path of deliberate industrialization should be followed, using import substitution behind trade barriers as the means to this end. For a number of reasons, import controls were employed in place of tariffs, and the sectors that received primary emphasis in these first years were textiles and clothing, wood products and furniture, leather goods, and the metallurgical and chemical products groups that had been put in place during the Japanese colonial regime. As a consequence — and helped by such circumstances as the Korean War — the value of output of manufactured goods doubled between 1948 and 1951 and doubled again between 1951 and 1954.[1]

By the latter year, however, the economy had begun to run into difficulties. Partly they resulted from the inevitable shortcoming of import substitution policies in a relatively small and poor country — effective demand and scale of operations being limited in the mid-1950s by a domestic population of only nine million people, still mostly peasants. In addition, the problems of Taiwan could be attributed in part to an excessive resort to administrative controls, which became unduly complicated and began to distort the allocation of resources in several respects. By the late 1950s, balance-of-payments crises and other troubles had brought matters to a head, and the planners concluded that some fundamental change of direction was called for.

The New Direction

During those years, therefore, a far-reaching program of economic transformation was introduced, which culminated in a major overhaul of policies in 1960. Involved was a simplification of the system of controls and phased abandonment of the previously existing multiple exchange-rate arrangements, plus the adoption of incentives to investment and, perhaps most important, a whole-hearted commitment to export promotion, especially of manufactured goods, and gradual retreat from import substitution.

The consequences of these actions have been profound. Manufacturing production rose rapidly, from an average 11 per cent per year during the period 1955–1960, to 15 per cent in 1960–1965, and 19 per cent in 1965–1970,[2] while exports of manufactures rose by an average annual 24 per cent, 32 per cent, and 31 per cent during the respective periods.[3] As a result, Taiwan's economy grew in real terms averaging 5 per cent annually between 1955 and 1960, 11 per cent in 1960–1965, and 10 per cent during the period 1965–1970.[4]

The trend in the 1970s was for more of the same. By the later years of the decade industrial production was about twice as great as in Hong Kong[5] (but from a population almost four times as large), and the value of exports was also drawing ahead of the figure shown by the city state. Over the four years 1974–1977, Taiwan's total exports expanded by 69 per cent, from US$5.5 billion to $9.3 billion, still just below Hong Kong's $9.6 billion in exports that year.[6] However, in the following year Taiwan pulled past its rival in foreign sales and it has stayed slightly ahead most of the time since. Exports were valued at US$19.8 billion in 1980 and $22.6 billion in 1981. Although the island economy does not depend to quite the extent on exports of manufactures that Hong Kong does — its overseas shipments in that category typically representing around 85 per cent of the total as against a concentration of over 90 per cent on manufactured goods in the colony's sales abroad — there is no doubt where the main impetus to Taiwan's trading success lies.[7]

Taiwan's International Economic Position

The Island's Foreign Sales

Although its export trade is still dominated by textile products, Taiwan does not have nearly as heavy a dependence on that line of goods as does Hong Kong. In 1980 textiles and clothing accounted for just under a quarter of total sales abroad,[8] as against over 40 per cent in Hong Kong's case. In fact the share of textile items in Taiwan's overall exports has been falling since 1970 when it exceeded 30 per cent[9] (Table 3.1).

Where the Taiwan export picture appears most distinctive, as compared to the other two economies examined in this study, is in the degree of its concentration on products that involve a somewhat more advanced technology than the "traditional" manufactured items usually forming the bulk of foreign sales by industrializing countries. In the Taiwan government's trade statistics, the biggest single export classification by value is electrical machinery and equipment, worth in 1980 almost US$3.4 billion.[10] The item covers a wide range of products, the major ones being radios, television sets, integrated

Table 3.1
EXPORTS OF TAIWAN, BY COMMODITY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Total	1 481	100.0	19 811	100.0
Textiles and Clothing	470	31.7	4 786	24.2
Electrical Equipment	182	12.3	3 435	17.3
Plastics, etc., and Products	31	2.1	1 460	7.4
Wood and Products	128	8.6	1 139	5.8
Metal Manufacturing	28	1.9	868	4.4
Machinery, etc.	48	3.3	738	3.7
Transportation Equipment	n/a	—	638	3.2
Base Metals	65	4.4	395	2.0
Rubber Products	15	1.0	312	1.6
Fish Products	21	1.5	306	1.5
Canned Food	85	5.7	230	1.2
All Other Commodities	408	27.5	5 504	27.7

Sources: *Taiwan Statistical Data Book, 1980* (Taipei: Council for Economic Planning and Development, Executive Yuan, 1981), pp. 203–4; *Trade Statistics* (Taipei: Far East Trade Service, 1981), p. 3; *Handy Economic Data Kit, 1981* (Taipei: Far East Trade Service, 1981), Table 1.8.

circuits, and electric fans. While some of the individual clothing items are larger than any of these — particularly "outer garments and other articles, knitted or crocheted, in synthetic or regenerated fibre," of which the value of exports in 1980 was approximately US$1 billion — the principal lines of electrical and electronic apparatus seem to offer more dynamic opportunities in foreign markets.

Thus, Taiwan appears to have moved over the past ten years rather more fully towards the higher-technology realms of manufacturing industry than has Hong Kong where exports are concerned. Although clothing and other textile products remain the major export items, their dominance is much less overwhelming than is the case in Hong Kong's sales abroad.

With respect to the geographical breakdown of its export trade, Taiwan is not appreciably more diversified than Hong Kong in that the United States purchased 34 per cent of all Taiwanese shipments abroad in 1980[11] (Table 3.2); these shares are virtually the same as the fraction of the colony's exports normally going to the U.S. market. However, Japan is a far more important outlet for Taiwan's foreign sales than it is for Hong Kong's, taking 11 to 14 per cent of the total in recent years in the case of the island economy against 3 to 4 per cent as a customary proportion for Hong Kong. By contrast, whereas West Germany and Britain alone typically acquire some 20 per cent of Hong Kong's exports, Taiwan's sales to the whole of the European Community represented only 13 per cent of the total in 1979 and 1980. Another fairly significant overseas market for Taiwanese exports is Hong Kong itself, which took 8 per cent of the island's foreign sales in 1980. As Table 3.2 shows, distribution of the principal markets for Taiwan's exports has not greatly altered over the past ten years, though sales to Saudi Arabia, Australia, and Britain have grown more rapidly than average.[12] If anything, Canada is relatively less important today as a market for Taiwanese products than it was a decade ago.

Sales to Canada

Canada's purchases from Taiwan, worth Cdn$557 million in 1980, have nevertheless risen fully twelvefold in the past ten years, or twice as fast as our imports from Hong Kong.[13] Of the 1980 total, 85 per cent consisted of fully finished, non-food manufactured goods and 9 per cent of inedible "fabricated materials" (or semi-manufactured products).

The mix of major classes of items in the Canadian import package is considerably more heavily weighted toward "traditional" products than is Taiwan's global export trade. In particular, Canada acquired in 1980 over Cdn$130 million of Taiwanese apparel and apparel accessories, which alone represented 24 per cent of the total, whereas in Taiwan's exports as a whole all categories of textiles and clothing together accounted for 24 per cent.[14] The second largest item in the

Table 3.2
EXPORTS OF TAIWAN, BY COUNTRY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
United States	564	38.1	6 750	34.1
Japan	216	14.6	2 163	10.9
Hong Kong	136	9.2	1 547	7.8
West Germany	71	4.8	1 075	5.4
Saudi Arabia	4	0.3	544	2.8
Singapore	36	2.4	543	2.7
Australia	20	1.4	539	2.7
Indonesia	33	2.2	478	2.4
Britain	14	1.0	472	2.4
Canada	51	3.4	459	2.3
Korea[a]	28	1.9	262	1.3

[a] Korea is included here because of its relevance in the context of the study; Taiwanese sales to Korea in 1980 were exceeded by those to the Netherlands, Nigeria, Italy, and France.

Sources: Taiwan Statistical Data Book, 1980 (Taipei: Council for Economic Planning and Development, Executive Yuan, 1981), pp. 190–94; *Trade Statistics* (Taipei: Far East Trade Service, 1981), p. 1.

Canadian import list, footwear, took up 10 per cent of the overall bill of purchases from the island, worth $58 million, against only 6 per cent of all sales by Taiwan to the world in general. Even so, Canada seems to have received its full share of Taiwanese electronic communications products: television sets, radios, and phonographs accounted for 8 per cent of our imports from the island in 1980 while "other" telecommunications and related equipment represented a further 7 per cent, which was roughly in line with the global figure (Table 3.3).

It is, in truth, difficult to identify precisely the items in which Canada is receiving a smaller share of Taiwanese products than the average, as the areas of relatively low Canadian proportions are widely spread across the more minor classes of products. None is obviously out of line with the overall Taiwan export breakdown, but the smaller categories in Taiwan's own statistics on destinations show Canada falling short in the global export mix by a point or two in several cases. It appears that the more important examples of such "shortfalls" on the Canadian side occur in certain classes of machinery and in electrical equipment (other than consumer electronics); the rest is in miscellaneous items that are quite widely diffused throughout the spectrum of commodities.

The position of apparel as a leading import by Canada from Taiwan did not change over the past decade — although in 1969 its value was actually slightly exceeded by that of plywood and wood building boards, which subsequently fell steadily and in 1980 disappeared from the top ten.[15] Where the share of Canadian imports from Taiwan increased significantly in the 1970s is in purchases of television sets and radios, other telecommunications equipment, and "other" transportation equipment (mainly parts and accessories for bicycles).

In respect of market penetration, analysis of imports into Canada from the developing countries reveals some cases where Taiwan has been the main originator. In particular, "unfinished hardwood plywood" is shown as one of the items in which such countries increased their share of the Canadian market the most during the early 1970s.[16] These sources of the product, of which Taiwan was the foremost (Korea being another major supplier), doubled their proportion of total Canadian purchases, including both domestic and imported, to take 50 per cent of the market by the middle of the decade. That is a dramatic expansion that must have had an impact on home production, even though shipments by Canadian manufacturers grew from some $35 million to $50 million over the same period. Another area where part of the effect can be ascribed to Taiwan is imports from developing countries of "television receiving sets," which quadrupled in relative penetration of the Canadian market over the early 1970s while domestic output virtually stagnated.[17] None the less, Third World sources of this product (which in any case include Korea, Hong

Kong, and Singapore as well as Taiwan) still accounted by mid-decade for less than 10 per cent of all Canadian purchases, so the unquestioned damage to that sector of home production had to be attributed mainly to other suppliers — primarily, of course, Japan.

Taiwanese Import Trade

Like both of the other countries with which this study is concerned, Taiwan has been hit hard by the rise in the price of oil, which by 1979 had become its largest single import item, comprising 15 per cent of all purchases from abroad, rising in 1980 to over 20 per cent.[18] The second largest category of imports as of 1980 was machinery, followed by electrical equipment, chemicals and allied products, iron and steel, and transport equipment (Table 3.4).

If one considers only non-oil imports, the sole category that looms significantly larger now than ten years ago in the total is that of wood products, which held at 3 per cent of all acquisitions from abroad between 1970 and 1980 despite the effects of the increased share taken up by petroleum.[19] For the most part these imports consist of lumber bought from other Asian countries for fabrication into plywood, wood building board, and similar products that are a component in Taiwanese export trade. Some additional items have increased fractionally in relative position if one considers only non-oil imports; these include machinery, electrical equipment, and chemicals. On the other hand, the proportions of the total taken by imports of transport equipment and many farm products fell over the 1970 – 1980 period.

Reflecting the increased oil price, Taiwan's imports from the Middle East reached over 20 per cent of those from all countries in 1980, compared with about 3 per cent in 1970.[20] Leaving aside imports from oil-producing countries, the United States' proportion of total Taiwanese acquisitions abroad remained strong, whereas imports from Japan fell in terms of Taiwan's non-oil purchases. Even so, the Japanese still kept their position as leading supplier of the Taiwan market. Among other sources, member nations of the European Community maintained their share of all Taiwanese purchases, despite the effect of the shift to oil-producing countries. The principal origins of imports to the island are shown in Table 3.5. As the comparison indicates, imports from Canada have risen proportionally in recent years to account for somewhat more than 1 per cent of all Taiwan's offshore purchases.

Purchases From Canada

Whereas the value of Canadian imports from Taiwan grew twelvefold between 1969 and 1979, our exports multiplied a mere eight times, with the result that the bilateral deficit widened enormously, from

Table 3.3
CANADA'S PRINCIPAL IMPORTS FROM TAIWAN[a]
Selected Years 1969–1980

	1969		1972		1975		1977		1979		1980		
	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	% of Total
Apparel and apparel accessories[b]	12 240	2	42 556	1	63 647	1	100 485	1	141 071	1	133 295	1	23.9
Footwear	5 547	3	15 183	3	14 365	3	26 673	2	47 565	2	57 784	2	10.4
Radios, phonographs, & television sets	2 105	5	6 499	5	11 196	4	13 759	6	35 538	3	43 601	3	7.8
Other telecommunications & related equipment	447	*	5 336	6	5 912	7	12 117	7	27 078	5	39 579	4	7.1
Other personal and household goods	788	7	2 490	7	5 357	8	10 640	8	21 619	7	25 688	5	4.6
Other end products, inedible	94	*	1 345	*	3 818	9	10 284	9	23 083	6	22 975	6	4.1
Vegetables and vegetable preparations	2 560	4	7 251	4	9 906	5	13 965	5	17 145	8	18 989	7	3.4
Other transportation equipment	126	*	2 054	10	6 144	6	15 905	4	12 927	10	18 373	8	3.3
Games, toys, and children's vehicles	479	10	1 734	*	3 436	*	6 454	*	14 271	9	14 558	9	2.6

Sporting and other recreational equipment	296	*	1 508	*	3 675	10	7 829	*	12 507	*	14 181	10	2.5
Plywood and wood building boards	12 591	1	19 926	2	16 375	2	21 511	3	31 316	4	12 128	*	2.2
Kitchen utensils, cutlery & tableware	839	6	2 250	9	2 552	*	4 990	*	8 581	*	9 589	*	1.7
Watches, clocks, jewellery, & silverware	17	*	990	*	2 921	*	10 175	10	7 020	*	8 194	*	1.5
Synthetic and mixed fabrics	74	*	625	*	1 813	*	3 696	*	10 387	*	6 395	*	1.1
Other wood fabricated materials	575	9	1 739	*	2 308	*	4 018	*	4 968	*	3 221	*	0.6
Fruits and fruit products, canned	452	*	805	*	1 476	*	1 130	*	1 660	*	2 579	*	0.5
House furnishings	668	8	2 349	8	3 568	*	3 954	*	1 907	*	2 558	*	0.5
Total of top ten	38 392		105 894		140 395		235 514		371 613		389 023		
Total imports from Taiwan	42 456		126 186		181 904		320 700		522 003		557 301		
Top ten as percentage of total	90.4		83.9		77.2		73.4		71.2		69.8		

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* = less than tenth.

[a] Listed in order of ranking in 1980. All product categories are included that fell into top ten in any year during period covered.

[b] Groups together "outerwear, knitted," "outerwear, except knitted," and "other apparel and apparel accessories."

Source: Imports by Countries (Ottawa: Statistics Canada, various issues).

Table 3.4
IMPORTS OF TAIWAN, BY COMMODITY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Total	1 524	100.0	19 733	100.0
Crude Petroleum	48	3.2	4 105	20.8
Machinery	202	13.2	2 298	11.6
Electrical Equipment	179	11.7	1 961	9.9
Chemicals and Products	167	10.9	1 844	9.3
Iron and Steel	118	7.8	1 342	6.8
Transport Equipment	163	10.7	1 233	6.2
Logs and Lumber	49	3.2	634	3.2
Corn	42	2.7	437	2.2
Cotton	67	4.4	401	2.0
Soya Beans	74	4.8	292	1.5
Paper and Pulp	23	1.5	199	1.0
All Other Commodities	392	25.9	4 987	25.5

Sources: *Taiwan Statistical Data Book, 1981* (Taipei: Council for Economic Planning and Development, Executive Yuan, 1981), pp. 212–13; *Trade Statistics* (Taipei: Far East Trade Service, 1981), p. 2; *Handy Economic Data Kit, 1981* (Taipei: Far East Trade Service, 1981), Table 1.9.

Table 3.5
IMPORTS OF TAIWAN, BY COUNTRY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Japan	653	42.8	5 348	27.1
United States	364	23.9	4 669	23.7
Kuwait	45	3.0	2 241	11.4
Saudi Arabia	3	0.2	1 419	7.2
West Germany	62	4.1	722	3.7
Indonesia	12	0.8	538	2.7
Australia	48	3.1	512	2.6
Malaysia	25	1.6	425	2.2
Britain	26	1.7	289	1.5
South Africa	3	0.2	273	1.4
Hong Kong	27	1.8	250	1.3
Canada	17	1.1	249	1.3
Singapore	5	0.3	222	1.1
Korea	15	1.0	208	1.1

Sources: *Taiwan Statistical Data Book, 1980* (Taipei: Council for Economic Planning and Development, Executive Yuan, 1981), pp. 190–96; *Trade Statistics* (Taipei: Far East Trade Service, 1981), p. 1.

Cdn$30 million to $418 million. However, in 1980 Canada's sales to the island increased by an astonishing 142 per cent, from Cdn$104 million to $251 million, bringing the deficit down to $306 million. That one-year gain raised exports from only a fifth to close to a half of the value of trade in the other direction. In 1981, though, our exports to the Taiwanese slipped again, whereas our imports from them strengthened further, so the deficit rose once more to $496 million.[21]

A noteworthy feature of Canadian exports to Taiwan is their heavy emphasis on raw materials. Although the proportions have altered quite sharply from year to year, "crude materials, inedible" have commonly accounted for 40 per cent of the total and often more; inedible fabricated materials have made up a roughly similar proportion, while farm commodities and end products have each taken a modest share of the total.

Thus, among the top ten export items in 1979 were "raw hides and skins," sulphur, unmanufactured asbestos, and coal and other crude bitumin substances (Table 3.6). In 1980 the order was somewhat changed, with fertilizers and copper ore replacing asbestos and coal. A few other items were prominent in both years, notably wood pulp and textile fibres. Over the period since 1969 several categories, such as wheat, asbestos, nickel, zinc, and fertilizers, have moved into and out of the leading ten.

The stress on purchases of Canadian raw materials and under-emphasis on finished products is very evident when one compares Taiwan's imports from Canada with its total imports. According to Taiwanese trade statistics,[22] foreign purchases of the three categories electrical machinery and equipment, non-electrical machinery and mechanical appliances, and transport equipment account for 10 per cent, 10 per cent, and 8 per cent of the total respectively, but the breakdown of imports from Canada sees the three categories making up just 1 per cent each of the island's overall acquisitions from this country. On the other hand, whereas paper and related materials account for a little over 1 per cent of Taiwan's total purchases abroad, they form 14 per cent of purchases from Canada, and the respective proportions for imports of raw hides, skins, and leather are 1 per cent and 12 per cent.

Perhaps the most interesting figures in these comparisons are those regarding textiles and textile products, which loomed large in the Canadian export standings and were indicated in the Taiwanese import data as making up 9 per cent of all purchases from Canada but only 5 per cent of Taiwan's global imports.[23] Close examination reveals that the item consisted almost entirely of discontinuous man-made fibres, and that in fact Canada supplied in 1980 over 9 per cent of Taiwanese total imports of this product. (Their other sources were Japan 53 per cent, the United States 23 per cent, and Korea 8 per

Table 3.6
CANADA'S PRINCIPAL EXPORTS TO TAIWAN[a]
Selected Years 1969–1980

	1969		1972		1975		1977		1979		1980		
	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	% of Total
Sulphur	3 904	1	1 760	5	5 738	3	8 589	2	9 481	3	33 001	1	13.1
Fertilizers and fertilizer materials	4	*	995	*	1 597	6	2 501	*	5 842	6	20 859	2	8.3
Copper in ores, contrates and scrap	107	*	82	*	287	*	882	*	411	*	20 303	3	8.1
Raw hides and skins	29	*	165	*	778	7	4 244	4	15 951	1	18 656	4	7.4
Plate, sheet, and strip, steel	1	*	15	*	23	*	21	*	378	*	17 899	5	7.1
Wood pulp	1 532	4	1 727	6	296	*	3 650	6	6 623	4	13 176	6	5.2
Organic chemicals	18	*	75	*	41	*	999	*	806	*	11 824	7	4.7
Asbestos, unmanufactured	288	10	262	*	158	*	2 738	9	4 052	8	11 570	8	4.6
Wheat, unmilled	1 977	2	2 804	2	—	—	2 691	10	—	—	11 330	9	4.5
Textile and related fibres	5	*	—	—	—	—	4 197	5	11 011	2	10 932	10	4.4
Coal and other bitumin substances	—	—	—	—	—	—	—	—	3 356	10	7 600	*	3.0
Newsprint paper	474	6	1 677	7	7 668	1	15 287	1	6 363	5	6 846	*	2.7
Other foods and materials for foods	—	—	—	—	110	*	228	*	3 462	9	6 805	*	2.7
Nickel and alloys	140	*	2 415	3	16	*	3 473	7	1 616	*	5 148	*	2.1
Aluminum, including alloys	25	*	299	*	95	*	604	*	136	*	4 595	*	1.8
Scrap iron and steel	483	5	—	—	50	*	105	*	1 257	*	4 397	*	1.8
Veneer	—	—	—	—	7	*	728	*	2 645	*	3 829	*	1.5
Zinc and zinc alloys	373	9	1 274	10	652	8	1 138	*	3 016	*	3 531	*	1.4

Synthetic rubber and plastic materials	11	*	3	*	498	10	406	*	1 716	*	2 559	*	1.0
Office machines and equipment	3	*	22	*	647	9	1 184	*	961	*	2 155	*	0.9
Other telecommunications and related equipment	425	8	481	*	265	*	669	*	845	*	1 645	*	0.7
Other non-metallic mineral basic products	37	*	21	*	366	*	155	*	1 357	*	1 271	*	0.5
Other measuring, control, laboratory, medical and optical equipment	8	*	1 907	4	143	*	249	*	75	*	1 015	*	0.4
Paperboard	—	—	—	—	—	—	2 820	8	6	*	395	*	0.2
Dairy produce, eggs, and honey	2	*	62	*	—	—	4 339	3	1 931	*	281	*	0.1
Copper and alloys	183	*	268	*	4 809	4	494	*	353	*	189	*	0.1
Other cereals, unmilled	—	—	—	—	32	*	—	—	4 177	7	126	*	0.1
Other non-ferrous metals and alloys	—	—	1 583	9	—	—	—	—	—	—	40	*	..
Engines and turbines, general purpose	—	—	1 624	8	5	*	17	*	—	—	6	*	..
Barley	—	—	3 099	1	—	—	—	—	—	—	3	—	..
Trucks, truck tractors and chassis	—	—	—	—	3 556	5	5	*	—	—	—	—	—
Other iron and steel and alloys	438	7	285	*	5 925	2	—	—	—	—	—	—	—
Rapeseed	1 533	3	—	—	—	—	—	—	—	—	—	—	—
Total of top ten	11 427		19 870		31 868		52 028		70 318		169 550		
Total exports to Taiwan	12 631		24 476		37 803		73 269		103 695		251 060		
Top ten as percentage of total	90.5		81.2		84.3		71.0		67.8		67.5		

* = less than tenth. .. = less than 0.1 per cent.

ᵃ Listed in order of ranking in 1980. All product categories are included that fell into top ten in any year during period covered.

Source: Exports by Countries (Ottawa: Statistics Canada), various issues.

cent.) It is worth observing, in view of the close relationship between synthetic fibres and chemicals, that Canada is a fairly strong supplier of chemicals and allied products also: in the 1980 Taiwan statistics, 14 per cent of imports from Canada were shown as being in this category, while under 10 per cent of all Taiwan's imports in that year were chemicals.[24]

On the whole, it is apparent that Canadian shipments to Taiwan are quite substantial in partially manufactured goods, but they are very weak in fully finished manufactures. In 1980 only 4 per cent of Canada's total shipments to the island consisted of end products, whereas the comparable proportions in that year's sales to Hong Kong and Korea were 23 per cent and 15 per cent respectively. The latter two figures are close to the percentage of all Canadian overseas exports — that is, except to the United States — in the end-products category in 1980, which was 18 per cent,[25] so it is our exports to Taiwan that show an unusual pattern in this regard.

Investment by Non-Residents

Foreign investment in Taiwanese industry and commerce is very large. The cumulative value of direct investments in Taiwan by outside interests between 1952 and the end of 1980 amounted to more than US$2.7 billion, and the growth of such investment has been accelerating in recent years: in 1978 the inflow was US$213 million, in 1979 $329 million, and in 1980 $466 million.[26] The focus has been increasingly on electronics and electrical appliances, which in 1979 accounted for 34 per cent of the foreign capital entering Taiwan in direct forms that year. Second among manufacturing industries was chemicals, which took 7 per cent of the total in 1979, followed by rubber and plastics, machinery and instruments, basic metals and metal products, and textiles. Investment by non-residents has also occurred in the service sector (in 1979 it was 22 per cent of the overall figure). It is mainly in fields like banking — there are thirteen foreign banks on the island — insurance, transportation, and so forth. A few outside interests are active in the construction industry. Excluding overseas Chinese investors, who account for a great part of the capital inflow, the biggest foreign direct investments made in Taiwan in 1980 were from the United States, with 24 per cent of the total, followed by Japan, which accounted for 18 per cent. It is estimated that incoming foreign investment from all sources in 1981 exceeded US$500 million.

While the government of Taiwan has consistently encouraged foreign investment, and has developed tax and other concessions as incentives, there have been changes over time in the emphasis given different sectors in this respect. At present, investment in the light standard manufacturing industries is being discouraged, unless there is a promise of new technology or market access or an intention to locate in areas of the island in special need of stimulus. The stress now is on high technology and some heavy industry, and investments showing export potential or producing intermediate inputs for such activities as steel or petrochemicals are particularly welcome.

Canadian investment in Taiwan is minimal. The only Canadian bank established on the island is the Toronto-Dominion; however, the Bank of Nova Scotia is said to have considered opening an office. It seems there is essentially no other economic activity by a Canadian enterprise in the country — although the absence of official (or even quasi-official) representation by Canada makes evidence on this question hard to come by.

Taiwan has not been a substantial overseas investor itself, but this position is starting to change. Some plants abroad are being acquired by Taiwanese interests in electronics in order to penetrate new markets, and joint ventures have been set up in several countries to develop mines or other sources of needed raw materials. Examples of these investments — a few of which are in Canada — will be referred to later.

Present Standing and Future Prospect

Stabilization, Diversification, Pragmatic Development

Of the three economies covered in this study, Taiwan is on the whole perhaps facing the fewest actual or potential difficulties at present. (Some background data on its position are given in Table 3.7.) Despite the staggering burden of the increased oil bill — which in 1980 almost doubled from 1979 in value terms to become one fifth of Taiwan's total imports (a proportion that remained unchanged, however, in 1981) — national output has continued to grow.[27] Certainly the pace of expansion slowed in the past few years, to 5.5 per cent in real terms in 1981 from 7 per cent the previous year, 8 per cent in 1979, and 14 per cent in 1978,[28] but this was still a respectable performance in the circumstances. Industrial production has maintained a forward momentum, and unemployment has been kept at extremely low levels. Export growth fell from an impressive 23 per cent in 1980 to 14 per cent in 1981; on the other hand, the rise in imports eased to 7 per cent from 34 per cent (thanks largely to the softening of world oil prices), causing the trade surplus to rebound from its very low 1980 level to a healthy US$1.4 billion in 1981.[29] Even the prevailing inflation (based on the retail price index) of 17 per cent for 1981, down from almost 20 per cent in 1980, was not bad given the pressures to which the system has been subjected.[30] Still, the mix of macro-economic constraints is an intimidating challenge for policy makers and an added worry to businessmen suffering falling overall profit levels.

Taiwanese government officials attribute the relative success of economic policy in these uneasy times to the effectiveness with which

Table 3.7

MAJOR ECONOMIC INDICATORS FOR TAIWAN

Selected Years of the High Growth Period 1952–1979

	1952	1955	1960	1965	1970	1975	1979
GNP (NT$million) at 1976 prices	89 864	116 349	160 978	252 909	403 210	613 414	940 561
Population (thousands)	8 128	9 078	10 792	12 628	14 676	16 150	17 479
GNP per capita (NT$) at 1976 prices	11 056	12 817	14 916	20 028	27 474	37 982	53 811
Components of GNP (%)							
Government Revenue	23.6	24.6	23.8	20.1	22.7	23.4	26.7
Government Savings	5.5	5.1	4.0	2.1	3.5	7.0	8.4
Total Domestic Savings	15.4	14.6	17.8	20.5	25.7	27.0	32.7
Gross Capital Formation	15.4	13.7	20.3	23.2	25.9	30.8	32.9
Exports	8.1	8.3	11.3	18.6	29.7	39.5	54.4
Imports	14.2	12.6	18.9	21.9	29.8	42.8	53.8
Shares of GNP, by Industrial Origin (%)							
Primary Production	37.1	33.7	33.9	28.3	19.8	15.8	10.6
Manufacturing	9.8	14.4	17.4	20.0	27.3	30.5	42.1
Social Overhead[a]	9.6	10.5	11.1	12.3	13.7	15.6	15.0
Services	42.8	42.9	39.4	40.2	42.0	40.7	34.6
Manufactured Exports (NT$billion)[b]		0.1	1.7	7.8	43.6	163.5	505.8
Manufactured Exports/Total Exports (%)		7.6	28.2	42.6	76.7	81.3	87.3

	1952–55	1955–60	1960–65	1965–70	1970–75	1975–79	1952–79
Compound Annual Growth Rates (%)							
Real GNP	9.0	6.7	9.5	9.8	8.8	11.3	9.1
Real GNP per capita	5.1	3.1	6.1	6.6	6.7	9.1	6.1
Index of Manufacturing Output	16.7	10.9	13.8	20.6	13.5	17.8	15.3
Exports (in constant prices)	4.5	11.7	21.1	22.2	15.4	18.4	16.1
Employment							
Total	1.2	2.1	2.3	4.3	3.8	3.9	2.9
Manufacturing	4.8	4.8	5.3	8.3	9.9	8.5	7.8
Agriculture	0.4	0.6	0.5	−0.7	−0.3	−4.4	−1.0
Real Wages							
Manufacturing	5.7	−0.1	5.5	6.5	7.9	10.7	5.8
Prices							
GNP Deflator	10.3	8.5	2.8	4.8	11.1	6.9	7.2
Wholesale Price Index	8.3	9.0	2.0	1.9	11.4	5.6	6.2

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[a] Construction; electricity, gas, and water; transport, storage, and communication.

[b] Includes SITC categories 5–8.

Sources: *National Income of the Republic of China* (Taipei: Directorate General of Budget, Accounting, and Statistics, various issues); *Taiwan Statistical Data Book* (Taipei: Economic Planning Council, various issues); *Monthly Statistics of Exports and Imports* (Taipei: Ministry of Finance, Department of Statistics, various issues); *Commodity Trade Statistics of the Republic of China, 1954–75* (Taipei: Research, Development and Evaluation Commission, August 1976); *Research Report* No. (66) (Taipei: Economic Planning Council, Overall Planning Department, July 1977).

the first oil shock was absorbed in 1973–74. In that period inflation reached well over 30 per cent a year, but it was brought back down quite promptly through the exercise of a tough line on interest rates, so that the country entered the next phase of adjustment to the energy crisis with its price structure largely stabilized and fewer distortions in the economy than were encountered in Korea, for example. The comparison with Korea is indeed instructive, for the attitudes of the economic managers in each case were entirely different and the differences have affected their nations' respective situations right through to the present. Koreans put their emphasis on stimulating exports to improve the balance of payments and devalued the won (the Korean currency) in 1974 by 21 per cent, producing strong trade growth and a booming economy in the short run. By contrast, Taiwan adopted a deflationary policy, reducing the increase in the money supply to 7 per cent in 1974 from an average of over 20 per cent per year in preceding years, and sweated out the resulting stagnation in exports without devaluing the currency.[31] The Taiwanese population paid the price of these measures through a drop to only 1 per cent in the pace of real economic growth in 1974, recovering to just 4 per cent in 1975, but the country emerged to enjoy a rate of inflation of no more than a few points annually whereas Korea continued into the mid-1970s with price increases at the double-digit level.[32]

Over and above these differences between Taiwan and Korea on stabilization policy, there have been strongly contrasting approaches to the concerns that each of them (and to some extent Hong Kong also) has felt since the early 1970s regarding the future of their agriculture and their manufacturing industry. And, here too, Taiwan seems to have coped particularly well.

Policies for Agriculture and Industry

In agriculture, the problem for both Taiwan and Korea a decade ago was sluggish performance in the rural sector. (Because Hong Kong perforce relies heavily on nearby areas of China for its food requirements, it does not for the most part need to worry directly about productivity in farming — though there are, of course, vulnerabilities in this dependence on imported food.) By the late 1960s agriculture in Korea was the least efficient major element in the economy and the chief contributor to rising prices, while the farms in Taiwan, which had long been extremely productive, were suffering from declining harvests due to an excessive exodus of rural labour to the cities. In either case, the need for a rejuvenation of farming was clear.

Both countries' governments set the goal of achieving self-sufficiency in grain and reducing rural-urban income disparities. Both sought to do this by changing the terms of trade between agriculture and industry — mainly through price supports for rice and other grains — and by promoting the adoption of efficiency-enhancing inputs to farming such as machinery, fertilizers, and high-yield seeds. But, whereas Korea developed very extensive subsidies and greatly restricted imports, thus erecting a complex structure of protection separating farmers from the real world, Taiwan avoided the worst of such arrangements. Thus, although neither country is without major economic detriments caused by the artificialities introduced into agricultural markets, the Taiwanese farm sector has been kept leaner, more efficient, more diversified, and less susceptible to holding back the movement of manpower into industry when that is what the economy needs.

More important even than this difference with respect to agriculture has been the policy chosen by each of the countries as regards manufacturing industry. Here the positions of Hong Kong, Taiwan, and Korea are broadly similar, in that they all feel they must diversify out of relatively low-skill, standard-technology, labour-intensive fields like clothing (except fashion clothing), footwear, cheap toys and plastic goods, and the like, into activities where they will be less challenged by newcomers to the industrial scene and where the special protective measures in overseas markets will, they hope, be less troublesome. Although, as remarked in the previous section, Hong Kong tends to see Taiwan and Korea as among the "newcomers" and consequently as part of its problem, the two more recently industrialized economies are now only slightly behind in the race; all are equally inclined to cast worried glances at China, Malaysia, Thailand, the Philippines, Sri Lanka, and other countries that are entering world trade with textile and similar items produced by labour earning a small fraction of what their own workers receive. The parallels among the three on this score are therefore quite close.

However, the reactions to the problem are rather distinct, at least as to detail. It is true that in each instance there is a determination to move "up market," into areas of higher skill and more advanced technology, as well as into realms of more sophisticated design and fashion where feasible. This aim, as elaborated by Hong Kong's Advisory Committee on Diversification, was described in the last section as it applied to the situation in the colony. It has found similar expression in Taiwan and Korea, but in the latter two cases it has been established as an explicit objective of the planning process (i.e., long-term economic development plans), which is of course in accordance with the more *dirigiste* philosophy of economic management in those places (especially Korea) as opposed to the *laissez-faire* style of government in Hong Kong. As between Taiwan and Korea, the difference is essentially a matter of application of the principle, in respect of which the Taiwanese have been inclined to greater pragmatism than the somewhat purist — and decidedly nationalistic — Korean administration.

In addition to the "up-market" theme, Taiwan and Korea have also decided to emphasize a type of development largely closed to Hong Kong by reason of its shortage of land: the development of capital-intensive medium and heavy industry, such as production of machinery (from turbines to automobiles) and to a lesser extent steel and non-ferrous metal processing and output of chemicals and related products. In these spheres the difference between Taiwanese pragmatism and Korean purism has been still more marked. Finally, Taiwan and Korea have both embarked on ambitious programs of infrastructure building and energy-source diversification, and here too the Taiwanese have been somewhat more cautious and practical than the Koreans.

Plans and Projects

The process of development and change in Taiwan has throughout been encouraged by government through the issuance of a series of official economic plans. Initially these plans operated on a four-year time horizon; however, the sixth four-year plan (1973–1976) was abandoned in 1975 as the world economy began to slow down, being replaced by a six-year plan running from 1976 to 1981, and this in turn was subsequently superseded by a ten-year plan covering the period 1980–1989. There has also been a subsidiary plan for 1982–1985.

Given the high level of economic performance during the quarter century since this planning process started, it is hardly necessary to go back over the specifics of earlier plans. Suffice it to say that the average annual real gain in gross national product between 1952 (immediately prior to the first plan) and 1979 was more than 9 per cent — and between 1975 and 1979 it was in excess of 11 per cent.[33] Throughout virtually the entire time from the early 1950s, manufacturing output rose by an annual increment of at least 10 per cent and usually much more than that; between 1975 and 1979 the yearly average increase was close to 18 per cent.

Starting in the 1960s, the development strategy was based very heavily on export promotion. With a rate of population increase in excess of 3.5 per cent per year, the country needed rapid growth to provide employment, and production for export offered the best way of achieving that objective.[34] Special arrangements were made to enable potential exporters to obtain credit on easy terms, and in 1965 the Kaohsiung Export Processing Zone was established in southern Taiwan to permit manufacturers to produce goods for export without paying duty on necessary imported inputs. (Subsequently two more of these export processing zones were created.) Throughout the 1960s the annual rate of increase in exports was better than 20 per cent, and it has fallen only slightly in more recent years.[35]

A deliberate policy of attracting foreign investment was also adopted, and the Taiwanese have so far not apparently worried overmuch about the involvement of non-resident interests in their economy. As an example, whereas Korea has sought to develop an automotive industry around lines of cars, buses, and trucks that are in several instances largely indigenously designed and produced, Taiwan has been content so far to assemble vehicles under technical agreements with foreign companies. Although one of the most common makes of car to be seen on the streets bears the name Yue Loong, it is obviously a Datsun, and the Sanyang is equally clearly a Honda. Participation by one of the major foreign companies is an integral part of the recently announced plan for a new facility to produce 200 000 cars a year (more than doubling present capacity), the quite explicit intention being for this partner to own 45 per cent of the operation.[36] The government of Taiwan seems likewise to be relaxed about the important stakes of U.S., Japanese, and European companies in such fields as electronics and chemicals. In many cases these foreign firms have been in the vanguard of the export drive.

On the whole, the approach to industrial expansion has been to look for opportunities for backward linkages from existing production processes. That is to say, when the sales volume for a finished product — on either home or foreign markets — appears likely to justify moving beyond simple assembly to the manufacture of basic components, the government tends to provide positive encouragement to that step. A case in point is the move over time from assembly of black-and-white television sets to the production of picture tubes for both black-and-white and colour receivers. By such an evolutionary route Taiwan has advanced into the ranks of major television equipment producers, the international status of which was strikingly illustrated in December 1980 by the announcement that the country's largest manufacturer, the Tatung Company, would take over a television plant in England formerly owned by Decca. Tatung will manufacture television sets there for sale in Britain and throughout Europe.[37] (Tatung and another Taiwanese firm, Sampo, also have plans for television-set assembly in the United States.)

This pragmatic style of development, keeping to a fairly modest level the amount and intensity of governmental intrusion into business decision making, has by and large been highly successful. It should be mentioned, though, that in a few industries government control is much greater — for instance in steel, some non-ferrous metals, shipbuilding, parts of the chemicals industry (see Figure 3.1) — and here success is much less evident. Indeed, except for the steel company, which is said to be one of the most profitable in the world,[38] all wholly nationalized enterprises appear to be rather inefficient. There is a widespread feeling among local economists and

Figure 3.1
GOVERNMENT-OWNED AND -CONTROLLED ENTERPRISES IN TAIWAN

Wholly State Owned
BES Engineering Corporation
China Phosphate Industries Corporation
China Steel Corporation
Chinese Petroleum Corporation (and subsidiaries Chinese Petrochemicals Development Corp. and Taiwan Alkali Co.)[a]
Chung Tai Chemical Industry Corporation
Taiwan Aluminum Corporation
Taiwan Metal Mining Corporation

Partially Owned by State
China Shipbuilding Corporation
Taiwan Fertilizer Company
Taiwan Machinery Manufacturing Corporation
Taiwan Power Company
Taiwan Sugar Corporation

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[a] The CPC also operates several joint ventures with foreign interests.

commentators that the government should find some means of turning the relevant concerns over to private owners. However, these firms can be seen as exceptions to the Taiwanese preference for limited governmental involvement and pragmatic approaches to industrial evolution.

None the less, the government is extremely active in the overall direction of events, and it often presents its goals in quite dramatic fashion. In late 1973 and early 1974 it set forth a program of large-scale industrial and infrastructure projects that provided a huge boost to public spending in the economy.[39] Known as the Ten Major Development Projects, these undertakings were all completed in the remainder of the decade. Three were concerned with the creation of heavy and chemical industries and included some of the nationalized ventures: the first phase of an integrated steel mill, the Koahsiung shipyard, and a petrochemical complex. Six were designed to improve transport connections: the Sun Yat-sen north-south freeway, the North Link Railway through mountainous northern terrain, electrification of existing trunk rail lines, the Chiang Kai-shek International Airport at Taoyuan, a completely new harbour near Taichung on the west coast, and expansion of the northeastern Suao harbour into an international port. The tenth was energy related: the construction of the first of a series of nuclear power plants to reduce dependence on imported oil.

Thanks to the combination of generally intelligent government planning and highly effective and energetic business initiatives, the economy has forged ahead through the difficult years of the successive oil crises and the world recession and inflation of the late 1970s with less set-backs than most. Except for its extreme reliance on foreign oil, and the problem of price increase that is in significant measure a consequence of that position, Taiwan entered the 1980s in remarkably good shape.

Before concluding this review of Taiwanese economic progress, it is necessary to make a brief reference to the nation's political situation and social scene, which contain their peculiar features and some elements of possible future instability. In principle, there is still a state of open hostility between Taiwan and mainland China, but Chinese animosity has virtually evaporated in recent times and has been replaced by urgings to the Taiwanese to consider reunification. Although these approaches have been rejected by Taiwan, little has been heard for a number of years of the determination of "free China" to recapture the motherland. Taiwan's somewhat anomalous diplomatic standing is the source of a certain amount of annoyance among its politically conscious citizens, but it gives rise to few genuine difficulties at the practical level.

More serious is the fact that the system of government is rather less than democratic — although by the standards of developing countries there is a fair measure of popular representation — and abuses of individual liberty are by no means unknown. Also some tensions continue, in a subdued way, between "native Taiwanese" and the "mainlanders" who came from China in 1949. A question of some concern is how the succession to 71-year-old President Chiang Ching-kuo (who simply assumed power on the death of his father Chiang Kai-shek) will be managed. These are all potential sources of difficulty.

Yet on the whole there appears to be very little political unrest.[40] At the moment, Taiwanese society gives to the casual visitor an impression of relative stability and contentment — and this perception is confirmed by most long-term foreign residents — although the underlying problems could surface later if circumstances change.

The Next Ten Years

In the new Taiwanese plan covering the whole of this decade, an average real GNP growth of just under 8 per cent per year is projected.[41] This is a good deal lower than the rate of recent times, largely because of envisaged problems in the international economy. As the Council for Economic Planning and Development puts it: "In view of the slowdown in world trade which is expected to continue throughout the 1980s, the plan sets a modest annual export growth of 12.5 per cent in real terms."[42] Even so, most countries would consider export expansion of these dimensions very healthy indeed.

There is some mild scepticism among academic economists and others in Taiwan about the targets, but few seem to think they are seriously over-optimistic. Most critics would suggest only minor downward revision of the forecast 10 per cent annual growth in the industrial sector (10.3 per cent in manufacturing), 1.5 per cent in agriculture, and 5.8 per cent in services (with the emphasis on transportation and communications). Such more conservative estimates would make for relatively small amendments in the Council's view that per capita gross national product will climb to over US$3 350 in 1984 and more than US$6 000 in 1989, compared with US$1 865 in 1979, on the basis of an annual rate of price increase averaging about 6 per cent during the whole period.[43]

These objectives are underpinned by a new set of twelve large development projects, taking up where the previous ten left off.[44] Of the twelve, one is directly related to industry: the second phase of the integrated steel mill. Another is energy focused: a continuation of the nuclear power program involving two more plants. Two deal with agriculture: improvement of farm drainage; and acceleration of agricultural mechanization through better opportunities for financing. Five are concerned with transportation: an around-the-island railway; three new cross-island highways; regional traffic improvement in the Kaohsiung-Pingtung area; the second and third stages of the Taichung harbour; and a widening of the highway between Pingtung and Olyanpi in the extreme south. The final three projects are classed as "social and cultural": development of new towns and the building of 25 000 housing units each year; repair and construction of sea dikes, breakwaters, and river levees around the country; and establishment of cultural centres, each including a library, a museum, and a concert hall, in every city and county throughout Taiwan.

Fundamental to the achievement of Taiwan's goals over the ten years is escape from the excessive dependence on imported oil, and the government has accordingly set forth proposals for conserving by various means and for switching to sources of fuel other than petroleum. The new plan calls for a lowering of the income elasticity of energy use from 1.44 to 1.02,[45] and a reduction in the proportion of total energy derived from imported oil from 71 to 47 per cent[46] by 1989. These are extremely ambitious targets, especially given the fact that Taiwan has for a long time subsidized energy consumption in industry, with the result that there is much inefficiency in the manner in which it is employed and great potential for loss of cost competitiveness if oil prices were raised rapidly. It can be assumed that some non-price incentives for saving oil will be devised, as indeed is suggested by several points made in the plan.[47] In any event, the government is determined that the change must occur.

In respect of supply, the crucial question is the capacity of the country to adapt its industries, power utilities, and other users to coal and nuclear-based energy, the availability of which rests in turn on an ability to obtain the former from abroad and to generate the latter from foreign-designed reactors using imported uranium. Some very large logistical and other problems are raised by these requirements, but they are being tackled with great enthusiasm by the planners, scientists, and businessmen involved. As is indicated in Table 3.8, if the targets for 1989 are reached, by that date Taiwan will be deriving 26 per cent of its needs for energy from imported coal (plus 3 per cent from home-produced coal) and 14 per cent from nuclear power, compared with 1980 figures of 6 per cent (plus 6 per cent) and 5 per cent respectively.[48] Such a massive shift implies an annual growth in supplies of imported coal of more than 26 per cent, in volume terms, over the ten-year period, along with a yearly rise of almost 21 per cent in the amount of power being generated from nuclear sources. By contrast, the increase each year in the quantity of crude oil and petroleum products imported over the decade would be only a little more than 5 per cent.[49]

The Taiwanese are in consequence scouring the world for assured supplies of coal, a quest that brings them into the same camp as the Japanese and Koreans, who are similarly engaged. Naturally their first choices are the countries with coasts on the Pacific, having adequate deep-sea ports on those coasts and good rail links from the mines to the ports. In their anxiety to secure access to these relatively rare situations, they are ready if necessary to invest substantial sums in overseas joint ventures. So far as nuclear energy is concerned, they are moving ahead beyond the twelve development projects: a fourth nuclear power plant is on the drawing boards and a fifth and sixth are being considered. Five foreign companies — General Electric, Westinghouse, and Combustion Engineering of the United States, Framatome of France, and Kraftwerk Union of West Germany — are now actively bidding for the contract to build the fourth plant, worth US$3 billion. The Minister of Economic Affairs stated in July 1980 that he expected the number of nuclear stations in Taiwan to reach twenty by the year 2000.[50] More recently, the vice president of Taiwan Power Company has indicated that this number might indeed reach twenty-six by the end of the century, at which point 40 per cent of the country's electric power would be derived from nuclear reactors.[51] Each of these plants is to be of 1 000 MW capacity.

Altering the Structure of Industry

Economizing on the use of energy is one of the several rationales given for the Taiwanese intention to alter the structure of industry over the period of the ten-year plan. In addition to the considerations already

Table 3.8
PROJECTIONS OF TAIWAN'S PRIMARY ENERGY DEMAND AND SOURCES OF SUPPLY
Thousand kl of Oil Equivalent

	1979		1980 (estimated)		1984 (projected)		1986 (projected)		1989 (projected)		1981–91 Average Annual Growth
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
											%
Demand = Supply	31 457	100.0	35 520	100.0	49 907	100.0	61 202	100.0	79 030	100.0	9.6
Domestic production	5 626	17.9	5 976	16.9	6 767	13.6	8 926	14.6	10 603	13.4	6.5
Coal	2 022	6.4	2 167	6.1	2 167	4.3	2 167	3.5	2 167	2.7	—
Oil	230	0.7	240	0.7	245	0.5	345	0.6	1 140	1.5	17.4
Natural gas	2 130	6.8	2 340	6.6	2 385	4.8	4 270	7.0	4 370	5.5	7.5
Hydro	1 244	4.0	1 229	3.5	1 970	4.0	2 144	3.5	2 926	3.7	8.9
Imports	25 831	82.1	29 544	83.1	43 140	86.4	52 276	85.4	68 427	86.6	10.2
Coal	1 974	6.3	3 391	9.5	6 400	12.8	12 595	20.6	20 239	25.6	26.2
Oil and petroleum products	22 231	70.6	24 110	67.9	30 636	61.4	31 417	51.3	37 389	47.3	5.3
Nuclear	1 626	5.2	2 043	5.7	6 104	12.2	8 264	13.5	10 799	13.7	20.8

Source: Ten Year Economic Development Plan for Taiwan, Republic of China, 1980–1989 (Taipei: Council for Economic Planning and Development, March 1980).

mentioned and largely shared with Hong Kong, there is a desire to move into activities that are intensive in their employment of capital or skill or specialized technology but not energy intensive. Not all the sectors earlier selected as preferred spheres of development meet these criteria, and for this reason there is a good deal of agonizing about the wisdom of stressing certain medium to heavy industries. Nevertheless, the favourite three — machinery, electrical equipment, and electronics — are touted as requiring in the production process only one-third the amount of electric power and less than one-tenth the amount of oil products utilized per unit of output in an average industry.

That consideration is, however, merely the latest of a range of arguments for stressing such lines of endeavour that have been expressed for a good many years. The theme of these ideas is much the same as that presented in the same context in Hong Kong, which was outlined in Part Two. One other factor not apparent in the Hong Kong case, though, is the feeling of the Taiwanese that they have an unusually well-educated population with as yet inadequate relevant opportunities to employ these people to greatest advantage. In this connection, they note that between 1952 and 1979 the number of pupils in primary education more than doubled, but the population of those in secondary schooling increased tenfold and that of students in higher education over thirtyfold.[52] As a result, 80 per cent of the work-force is now high-school educated and 25 per cent of it college educated. (The quality of Hong Kong labour, by comparison, has been held down by large-scale immigration of poorly educated workers from China.) These reasons contribute to the Taiwanese view that their manufacturing sector should be progressively restructured to emphasize a different set of activities than hitherto.

The result, as expressed in the targets of the ten-year plan (Table 3.9), is an economic realignment of which the following are the most prominent features:[53]

- A slow-down in the expansion of the textile product sector, which is expected to grow by an average of only 7 per cent per year in the coming decade, so that its relative size in the total value of manufacturing output will drop from 14 per cent in 1979 to 11 per cent in 1989.
- An annual average increase of almost 17 per cent in the production of machinery, taking its proportion of the total value of output from less than 4 per cent to 6.5 per cent over the ten years.
- A yearly rise in production of telecommunications equipment averaging close to 15 per cent, raising its relative importance from 6 per cent to 9 per cent of the total by 1989.
- An average gain of 14 per cent annually in the output of transportation equipment, bringing its share of all manufacturing production up from 7 per cent to 10 per cent during the decade.

Table 3.9
PROJECTED STRUCTURE OF TAIWAN'S MANUFACTURING SECTOR, 1979–1989[a]

	1979		1984		1989		Annual % Growth		
	US$ Mln.	%	US$ Mln.[b]	%	US$ Mln.[b]	%	1980–84	1985–89	1980–89
High-Technology Products									
Transportation	1 002.1	7.3	1 968.6	8.6	3 700.5	10.1	14.5	13.5	14.0
Telecommunications	841.0	6.1	1 688.4	7.4	3 315.5	9.0	15.0	14.4	14.7
Electrical & Electronics	603.7	4.4	1 110.2	4.9	2 086.9	5.7	13.0	13.5	13.2
Machinery	509.4	3.7	1 163.2	5.1	2 285.3	6.5	18.0	15.4	16.7
Household Appliances	333.7	2.4	587.2	2.6	991.9	2.7	12.2	10.9	11.5
Sub-Total	3 289.9	23.9	6 517.6	28.6	12 480.1	34.0	14.7	13.9	14.3
Metals and Minerals									
Iron & Steel	495.1	3.6	951.4	4.2	1 711.5	4.7	14.0	12.5	13.2
Other Metals	791.4	5.7	1 581.9	6.9	2 993.7	8.1	14.9	13.5	14.2
Other Minerals*	583.6	4.2	938.2	4.1	1 475.2	4.0	10.0	9.5	9.7
Sub-Total	1 870.1	13.5	3 471.5	15.2	6 160.4	16.8	13.2	12.1	12.7

*Chemicals and Petrochemicals**									
Petroleum Products	663.8	4.8	946.7	4.1	1 358.1	3.7	7.4	7.5	7.4
Petrochemical Feed-stocks	262.9	1.9	462.5	2.0	663.5	1.8	12.0	7.5	9.7
Man-made Fibres	541.3	3.9	846.7	3.7	1 225.9	3.3	9.4	7.7	8.5
Plastic Materials	204.5	1.5	376.0	1.6	564.9	1.5	13.0	8.5	10.7
Plastic Products	679.6	4.9	1 043.6	4.6	1 429.0	3.9	9.0	6.5	7.7
Other Chemicals	1 249.1	9.0	1 831.9	8.0	2 689.3	7.3	8.0	8.0	8.0
Sub-Total	3 601.2	26.1	5 507.4	24.1	7 930.7	21.5	8.7	7.5	8.2
Other Industries									
Processed Foods*	1 899.4	13.8	2 489.5	10.9	3 028.9	8.2	5.6	4.0	4.8
Textiles	1 949.9	14.1	2 859.6	12.5	3 915.7	10.6	8.0	6.5	7.2
Lumber and Wood Products	439.0	3.2	559.3	2.4	696.9	1.9	5.0	4.5	4.7
Other	755.8	5.5	1 439.9	6.3	2 589.9	7.0	13.8	12.5	13.1
Sub-Total	5 040.1	36.6	7 348.3	32.1	10 231.4	27.7	7.8	6.9	7.3
TOTAL	13 801.3	100.0	22 844.8	100.0	36 802.6	100.0	10.6	10.0	10.3

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* These industries absorb large amounts of energy.

[a] All dollar values represent the "value added" by the industry, as is required for GNP calculations. The values do not indicate the value of sales.

[b] In 1979 prices.

Sources: *Ten-Year Plan for 1980–89* (Taipei: Council for Economic Planning and Development), reproduced in *Foreign Economic Trends and Their Implications for the United States — Taiwan* (Washington, D.C.: U.S. Department of Commerce, International Trade Administration, September 1980), pp. 13–14.

- Somewhat similar rates of increase in the production of iron and steel, other metals and metal products, and electrical machinery and appliances, all of which are seen as looming considerably larger in the manufacturing picture in 1989 than they do today.

Within the industries that are slated to grow at above-average rates, the emphasis will be on product lines that embody advanced technology and whose manufacture requires a highly skilled workforce. This stress on skill and technology, which is being reiterated in many aspects of Taiwanese development strategy, has led to the creation of a special Science Industry Park at Hsinchu, 70 kilometres south of Taipei, designed to attract high-technology firms to a location close by several scientific institutes and colleges.[54]

The Scope for Benefiting From Taiwan's Boom

A Changing Emphasis in Trade With Other Countries

In many respects the outlook that Taiwan presents to foreign business interests, as well as to those exposed to its competition in their own markets, is rather similar to the prospect offered by Hong Kong. As in the colony, the evolution of industry henceforward is destined to be away from "traditional" lines of products, such as clothing and shoes, towards electronic equipment and similar higher-technology items. Moreover, to the extent that the older established industries remain, they will tend in the future to concentrate (though probably to a lesser extent than Hong Kong's) on quality apparel, footwear, and other items, in which design and fashion receive greater attention. All of this is familiar from the foregoing discussion, and its implication for other countries is bound to be comparable to that already dealt with in our examination of the effects of parallel changes in Hong Kong.

There are, however, a number of important differences between the two sets of influences. One of these lies in the commitment of the government of Taiwan to development of heavy and chemical industries, which have no place in the plans of Hong Kong. A lot of uncertainty still surrounds the question of which heavy and chemical industries the Taiwanese will foster, since the increased cost of oil obviously makes these energy-intensive activities very expensive for a country that is so highly dependent on imported petroleum supplies. Some reconsideration of the wisdom of moving on a large scale into non-ferrous metal refining and petrochemical output is clearly going on, and there are indications that Taiwan will build such heavy industries primarily with a view to meeting domestic demand only, as opposed to earlier concepts of massive export orientation, since it has no apparent competitive advantage in industries of this kind.

Concentration on the domestic market is less likely to be the prime concern in the Taiwanese automobile industry, which is due for substantial expansion in the next few years. As we have noted, Taiwan has not sought to develop its own independent capability in this field in quite the way that Korea has done, but has built vehicles under technical agreements from Japanese and other foreign manufacturers. The Japanese automobile companies are sceptical of the ability of any foreign labour force to maintain their standards of quality, and that attitude has until recently discouraged offshore licensing except for purely local sale. In the last several years, though, resistance in many countries to large-scale importation of Japanese cars has caused the firms to realize that they must become multinationals, with production facilities around the globe, and their altered view is apparently leading to a different strategy in respect of associated enterprises in places like Taiwan.

In other words, Taiwanese automotive output may before long be integrated more completely into Japanese plans for the next phase of international motor vehicle manufacturing and marketing, which could mean either that Japanese-designed Taiwan-built cars start to enter overseas markets or that Taiwanese elements begin to appear in a Japanese "world car." With Taiwan now negotiating with several foreign companies (of which Nissan and Toyota are the front runners) for a new 200 000-vehicle-per-year plant oriented heavily toward export markets, it would seem that the former of these two possibilities is the more likely prospect in the medium term.[55]

Another difference from Hong Kong is the apparent desire of the government of Taiwan to encourage backward linkages in the electronics and other higher-technology industries right to some of the most fundamental inputs in these sophisticated fields. While Hong Kong is certainly moving into very elaborate products, it seems that neither industrialists nor the government there have any inclination to develop a competence in basic research and innovation; the colony is happy to import what is required and assemble it. Taiwan, on the other hand, sees its future as something more than a "busy finger" assembler and wants to be able to initiate technology in fields like electronics virtually on its own. This means that, while for some years it will continue to rely on direct investment by foreign multinational firms to provide inputs to its local operations and help it secure access to markets, ultimately it will want to satisfy those needs through licensing or service agreements and even to evolve many first-stage products at home.

An indication of what may be in store in this regard is the determined move into microelectronics. In 1976 the semi-governmental Industrial Technology Research Institute bought integrated circuit technology from RCA of the United States; today silicon chips are made and integrated circuits designed in the institute's laboratories, and a wholly Taiwanese-owned firm, United

Microelectronics, produces the circuits and markets them.[56] Taiwan is also trying to establish a capability in larger aspects of computer technology, as well as software packages, and has allocated US$500 million for research and development in computer and telecommunications systems and in teaching the necessary skills. Initially the fruits of these efforts are expected to be directed to domestic requirements, but if there is real success no doubt both the products and the services associated with them will find their way into export markets.

A further respect in which the situation of Taiwan differs from that of Hong Kong, with resulting differences in the implications for other nations, has to do simply with the size of the island and its economy as compared with the colony. Although Taiwan is not a large country, it has almost four times the population and thirty times the area of Hong Kong, which means that its market is considerably larger. It also means that, for all the prodigious energy of Hong Kong's entrepreneurs and workers, Taiwan can almost certainly be expected to grow into a much bigger industrial power in due course. At the same time, the absence of any fundamental shortage of land relieves Taiwan of the incentive to develop many service activities of the type that are so attractive in Hong Kong because of their economical use of space.

Further to this last comment, there is nothing in the position and history of Taiwan that could enable it to play a role comparable to Hong Kong's as financial and commercial centre for East Asia, and it will therefore never offer the opportunity for trade in intangibles that is such a feature of the city-state. By the same token, political considerations at present strictly limit the Taiwanese from becoming engaged in direct economic relations with mainland China, either on their own behalf or as an agent and intermediary for foreign interests. Although a substantial indirect trade does occur between Taiwan and China (over US$200 million worth in 1980), mostly through Hong Kong, it would take a profound transformation in attitudes for the island's nationalists to be able to work openly with the mainland's communists as Hong Kong businessmen manage to do. Some observers nevertheless think that the situation will change before too long — and indeed that Taiwan will become an important source of industrial expertise for China while Hong Kong provides the more specialized service-type inputs. This prospect has been revived by the recent overtures to Taiwan made by the Chinese government, promising that the island could retain its private enterprise system within a reunited nation. But up to now the Taiwanese have dismissed such notions out of hand.

Likely Implications for Canada

All the points made earlier about the shift in areas of impact of Hong Kong exports on developed countries' industries, and about the kinds of workers involved in the new competition as against the old, apply with equal force to the trade of Taiwan. As in the other case, for Canada the repercussions will tend to impinge less on Quebec and more on Ontario as electronics and similar goods grow in importance in Taiwan's total exports relative to clothing and such items. And the characteristics of the labour force most likely to be vulnerable to market penetration from this more advanced industrialization will again be different from those of the people whose jobs have been susceptible to dislocations arising from the trade in textile products, and so forth: there will be an emphasis on prime-age workers relative to younger and older ones, on male rather than female employees, and on better-educated as opposed to less well-educated personnel. However, once more it must be stressed that the shift will be relative rather than absolute and, moreover, that there are other countries waiting to replace Taiwan as suppliers to Canada of the products that most bother Quebec industry and these other groups of workers.

So far as the reactions of affected interests in Canada and other importing nations are concerned, the main distinction from what can be expected in face of the Hong Kong challenge arises from a difference in many instances with respect to the tariff treatment accorded Taiwan. Because "the Republic of China" has no seat in the United Nations and is not recognized diplomatically in most parts of the world, many developed countries exclude its exports from the special access provisions of their trading arrangements under the Generalized System of Preferences (GSP). That is true for all the member nations of the European Community, as well as for Norway, Sweden, Finland, Switzerland, Czechoslovakia, Hungary, and Canada.[57] In consequence, any efforts by firms in those countries to secure greater protection of markets from Taiwanese products will not focus on the GSP, as almost certainly they will in the case of Hong Kong (and probably Korea), but will relate to some aspect of the most-favoured-nation tariff or to the overall administration of national customs duties and import policies as a whole. The point is of interest, in the context of this examination of the three Far Eastern states, since it suggests that the Taiwanese could escape some of the immediate protectionist pressures that may arise from their trade in a new generation of products.

This observation is nevertheless more significant for the individual developed nations excluding Taiwan from their GSP provisions than it is for Taiwan itself. On the basis of 1977 figures, the value of imports afforded GSP treatment by the seventeen largest advanced countries was greater for Taiwan (and for Korea) than it was for Hong Kong — essentially because the United States and Japan do afford Taiwanese goods GSP status — so there will no doubt be concern in those important markets to deal with Taiwanese trade in the same way as that of the other two.

But in Canada, at least, the special tariff issue does not arise; Taiwan is contriving to achieve export levels in our market comparable to Hong Kong's and Korea's without benefit of the GSP. Whether that inequality of treatment is justified is a matter of larger political relevance connected with the diplomatic recognition issue, on which we will touch a little later. What is implied for those in Canada seeking protection against imports of Taiwanese goods is that they will have to look to some feature of Canadian commercial-policy arrangements other than the GSP.

The problem of competing with Taiwan seems bound eventually to be a preoccupation of larger numbers of Canadian firms, embracing a broader range of industries, than in the case of Hong Kong, simply because of the wider potential scope of the island's economy. Partly, no doubt, the adjustments will be made within the global logistics of multinational firms (as indeed will occur with respect to Hong Kong), the main impetus for world-wide rationalization coming from companies headquartered in the United States, which are the major investors in Taiwan. Since many of these companies have Canadian subsidiaries, the process of accommodation may be accompanied by fewer dislocations in Canada than will arise in coping with competition with Korea, for example, where there are less extensive intercorporate connections to the North American business community.

However, because it is always open to foreign parent concerns to cut back production or even close down branch operations, Canadian firms will have to show the capacity to redeploy their resources appropriately whether they are foreign or domestically owned. The foregoing assessment of Taiwanese plans has suggested some of the main lines of concentration in that country's industrial evolution in the coming years. It is impossible to say how the relevant production in developed nations will be placed to respond effectively to such a challenge, but substantial reorganization and imaginative new initiatives will unquestionably be called for in at least some subsectors of the electronics field (perhaps including microelectronics) and probably several other industries.

Good Chances of Sales to Taiwan

The changes in Taiwan's demand patterns and industrial structure, as well as its general growth and the enrichment of the population, will naturally have implications for advanced countries' exports to the island as well as their imports from there. Of all aspects of this side of the trade picture, the most obvious is the rapid increase in the market that Taiwan will provide for foreign coal. The plans for switching away from oil to coal and nuclear power as sources of energy have already been commented upon, and the implications of such objectives in terms of imports of coal are dramatic. In truth, it is far from certain that the energy-substitution targets can be met, as there are formidable difficulties involved.[58] However, if they are, then Taiwanese imports of coal will rise from less than 3.4 million kilolitres of oil equivalent in 1980 to more than 20 million in 1989.[59]

Clearly this market will be of the greatest interest to Canada, which has substantial coal resources in the western part of the country. Already some contracts have been made to provide Canadian coal to Taiwan. The Taiwan Power Company signed an agreement in 1980 to buy thermal coal from Norco Resources of British Columbia over twenty-five years, starting with 200 000 tons in 1983 and building to a million tons annually in 1986. Taiwan will take the total production of the Canadian firm's Bowron River mine, near Prince George, and will invest $30 million to $40 million to help get the mine into production.[60] Taipower is looking to Canada for another deal of about the same size. In addition, at the time of writing, the Taiwanese nationalized steel company, China Steel, is very close to signing a contract to purchase 350 000 tons of metallurgical coal from Fording Coal of Calgary over ten years starting in 1982, a deal that would be worth $240 million in today's dollars; and there are prospects of raising the figure to 450 000 tons later.

Intriguing possibilities also exist for shipping Taiwan liquefied natural gas and liquefied petroleum gas, but at present the island has no facilities for transporting or storing large quantities of these fuels, and they would be very costly to establish. All the same, the country is receptive to any worthwhile proposal for reducing its dependence on oil and might be in the mood to co-operate in a project for bringing liquefied natural gas or liquefied petroleum gas from overseas if a viable means could be developed.

As regards nuclear power, the prospects for foreign suppliers of equipment and of uranium are extremely interesting, as we have seen. However, Canada is apparently out of the bidding to supply Taiwan with the CANDU reactor or even to offer uranium. It is not entirely clear whether the situation might be more promising if there were official diplomatic relations between the two countries, but presumably it would. The Canadian government seems to have a policy of not offering Taiwan its nuclear technology or uranium strictly because of the absence of proper instrumentalities for signing an accord. It should be noted that an NRX research reactor (designed by the National Research Council in Ottawa) was installed in Taiwan by Canadian engineers some ten years ago and has been in use ever since; but that was before Canada recognized the People's Republic and the diplomatic links with Taiwan were severed.[61] Today political sensitivities with respect to the People's Republic of China may preclude sales of nuclear items to Taiwan by most countries, especially since the recent contract with the Netherlands for purchase of Dutch submarines has triggered Chinese anger.

There are substantial opportunities for trade in industrial raw materials, many of which Canada is in a good position to supply. Asbestos, nickel, zinc, copper, ferro-alloys, sulphur, and other metallic and non-metallic minerals are commodities that Taiwan will be needing in increasing quantity and for which Canada is a well-placed source. The market for aluminum depends on whether or not Taiwan goes ahead as planned with its own smelter, now being reconsidered. Fertilizers will also be required in significant amounts by Taiwan's farm sector, as will organic chemicals of various kinds. There are excellent prospects for exports to the Taiwanese of unprocessed and semi-finished lumber and of certain specialized timber items (wood veneers are becoming an important category in Canadian sales), as well as of wood pulp and newsprint.

So far as agricultural produce is concerned, there should be growing opportunities for sales of wheat and other food grains as the people in Taiwan develop a taste for cereals besides rice and as the island's rice lands are in many cases turned over to more lucrative crops such as citrus and tropical fruits and vegetables (and even flowers) for home consumption and export to Japan and elsewhere. At present, however, Taiwan's wheat imports are almost totally from the United States, which has a lot of influence on the island, so there is evidently a major selling job to be done if Canada is to break into this market. Beef is a fairly small though increasingly important item, but most other meats are supplied mainly from home output. Worthy of greatest foreign interest among the farm developments are plans to build up dairy herds for a quadrupling of milk production by 1989, possibly to encourage some beef cattle raising on lower mountain slopes, and to expand poultry flocks for increased supply of chicken and eggs. These targets imply valuable markets for feed grains and other livestock feedstuffs, including wheat, barley, corn, soybeans, rapeseed, and alfalfa, some of which could provide a natural opening for Canada. The challenge here again, though, is the need to crack a U.S. stranglehold: virtually 100 per cent of all Taiwan's imports of corn and soybeans are currently from the United States, and there is doubtless a lot of political muscle behind these sales.

The prospect of selling fish products to Taiwan is probably not great, as the country is already a fish exporter and has the intention of enlarging its inshore and deep-sea fishery as well as fish culture in ponds and ditches on farmlands. Even so, foreign supplies of fish and fish products have been entering Taiwan in increasing amounts in recent years, and a market for particular items certainly exists. Canada has sold quantities of such items as dried and frozen squid to the Taiwanese and looks for modest additional exports in the future.

Secondary Industrial Products: What Will They Buy?

In respect of manufactured goods, the openings for foreign countries to export to Taiwan are in many instances similar to those occurring in Hong Kong, but once more there are important differences related to the emphasis on a somewhat broader range of industries in Taiwanese plans for the future, on the one hand, but the absence of substantial financial and other tertiary functions as compared with Hong Kong, on the other.

Turning first to similarities with the colony's market:

- Taiwan offers much the same prospect as Hong Kong for selling many kinds of equipment for use in the electronics industry, including production machinery and apparatus for testing and handling.
- The expansion of industrial plant generally is giving rise to a strong demand for items like production process and quality-control instrumentation, and the construction of both commercial and residential buildings is creating a need for construction machinery and equipment.
- As in Hong Kong, the improvement of hospital services makes for opportunities to sell health-care equipment.
- Throughout the economy, the adoption of modern techniques leads to a call for computers and peripheral facilities, communications equipment and systems, and similar devices to maximize office and factory efficiency.

The areas where additional opportunities arise in Taiwan are heavy industries and other particular fields:

- Automobile production, which provides a chance to supply many sorts of automotive equipment and apparatus
- Various types of metal-working activities, which require appropriate equipment
- Chemicals and petrochemicals, where sophisticated equipment and facilities are called for
- A range of laboratories and scientific and engineering establishments, which have specialized needs.

The larger ambitions of the Taiwanese planners also suggest many markets for mechanical and electrical power equipment and engines, pumps, compressors, and so forth. The importance of the farm sector makes for a demand for agricultural machinery. Taiwan's large fishing industry has need of fishing boats and equipment. There is a requirement for food-processing and packing machinery and containers and trailers for transporting frozen products. The government's infrastructure programs promise a wide variety of direct and indirect benefits for foreign suppliers. And the rising affluence of the population, much more numerous than that of Hong Kong, indicates a wide spectrum of possibilities for producers of consumer goods.[62]

Because Canada does not recognize Taiwan diplomatically and there are therefore no official commercial attachés from either country in the capital of the other, information on trade opportunities is more than usually difficult to obtain. The interested reader may find helpful the list of contacts at the end of this study, especially as it concerns the offices of the Far East Trade Service — which is affiliated with the Taiwanese government agency known as the China External Trade Development Council — in Toronto, Montreal, and Vancouver.

Setting Up Shop on the Island

For the foreign businessman with ideas of investing in Taiwan, there are few more inviting locations in East Asia. As we have observed, the Taiwanese encourage investments in almost all fields, and conditions are attractive generally. However, an economy with a rather careful planning system like this one may be able to determine which sectors will yield the best results, and the government's list of preferred activities is hence a very fair guide to the outside ventures that can expect to receive the warmest welcome and, most probably, the greatest chance to thrive.

An annual catalogue of the types of industry in which Taiwan would like to see foreign direct investment is published by the Industrial Development and Investment Center (IDIC), which, like the China External Trade Development Council, is represented through the Far East Trade Service in several North American cities including Montreal, Toronto, and Vancouver.[63] The latest list contains a large number of categories in the realms of electronics (including telecommunications and microprocessors), electrical machinery and equipment, non-electrical machinery, automotive components and equipment, chemicals, and several others. It also invites investors to offer complete plants in certain fields, such as paper mills, steel-rolling plants, plywood plants, textile factories, and chemical plants, as well as large-scale anti-pollution systems. Investments that are encouraged are ones that bring in advanced technology, make products with good potential either for exports or for import substitution, or produce intermediate materials for such industries as petrochemicals and steel.[64]

By way of providing a little more detail on some of these possibilities, the Director of the IDIC spelled out in May 1980 seven spheres in which it was felt investors would be assured of success:[65]

- Exploitation of energy resources — said to be likely to entail "numerous lucrative investment opportunities" in supportive downstream operations
- Basic metals – needing foreign investment or technical co-operation to ensure the capacity for turning out high-quality special alloy steel (and also, though this is now more doubtful in some cases, copper, zinc, lead, aluminum, and other metals)
- Shipbuilding — opportunities for investment in shipyards to construct freighters, bulk carriers, tankers, container vessels, cruisers, and yachts
- Automobile industry — the chance to develop manufacture of parts and components for a large new automobile production facility capable of annual output of 200 000 passenger cars, in addition to another making heavy-duty vehicles and diesel engines
- Machinery manufacturing — foreign direct investment or joint ventures for the production of precision equipment and advanced electrical and non-electrical machinery
- Electronics — an invitation to participate in the expansion of Taiwan's capability in consumer electronic items, plus sophisticated industrial equipment like mini-computers, computer terminals and peripherals, instruments and control systems, telecommunications equipment, etc.
- Chemicals — developments worthy of foreign involvement in pharmaceuticals, catalysts, stabilizers, accelerators, intermediates, hardeners, anti-oxidants, surface active agents, and many other derivatives for industrial applications.

It was also made clear that Taiwan would appreciate the assistance, "in some specially encouraged areas," of foreign enterprises able to "bring in technical know-how, render technical services, or perform engineering works."[66] This suggests opportunities in capital projects on which Canadian firms could bid.

As far as other investments are concerned, foreign banks are permitted only one branch in Taiwan, but the potential for profitable operations seems evident. There is also scope for investments in specialized services of various kinds to respond to the increasingly sophisticated requirements of Taiwanese businesses and consumers.

Notes

[1] Ching-yuan Lin, *Industrialization in Taiwan, 1946–72: Trade and Import Substitution Policies for Developing Countries* (New York: Praeger, 1973), p. 65.

[2] *Ibid.*, p. 119.

[3] *Ibid.*

[4] *Ibid.*

[5] Organisation for Economic Co-operation and Development, *The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures* (Paris: OECD, 1979), p. 8.

[6] Lawrence G. Franko, *A Survey of the Impact of Manufactured Exports from Industrializing Countries in Asia and Latin America* (Washington, D.C.: National Planning Association, 1979), pp. 35–36.

[7] Donald D. Keesing, *World Trade and Output of Manufactures: Structural Trends and Developing Countries' Exports* (Washington, D.C.: The World Bank, 1979), Annex B, and Franko, *op. cit.*, pp. 35–36.

[8] *Trade Statistics, Taiwan, ROC-Canada* (Taipei: Far East Trade Service, 1981), p. 3; *The Trade of China (Taiwan District), 1980* (Taipei: Statistical Department, Inspectorate General of Customs, 1981).

[9] *Taiwan Statistical Data Book 1980* (Taipei: Council for Economic Planning and Development, Executive Yuan, 1980), pp. 203–4; Ching-yuan Lin, *op. cit.*, p. 216.

[10] *The Trade of China, op. cit.*

[11] *Ibid.*

[12] *Taiwan Statistical Data Book, op. cit.*, pp. 190–94; *Trade Statistics, op. cit.*, p. 1.

[13] *Imports by Countries* (Ottawa: Statistics Canada, January-December 1980 and other issues).

[14] Taiwan's own statistics show the proportion of the country's exports of apparel and apparel accessories going to Canada as slightly lower; but the point is not significantly altered by this discrepancy. (*The Trade of China, op. cit.*)

[15] *Imports by Countries, op. cit.*

[16] R.A. Matthews, "Canadian Industry and the Challenge of Low-Cost Imports," Discussion Paper No. 172 (Ottawa: Economic Council of Canada, 1980), pp. 29, 178.

[17] *Ibid.*, pp. 31, 180.

[18] *The Trade of China, op. cit.*

[19] *Ibid.*, and *Taiwan Statistical Data Book, op. cit.*, pp. 203–4.

[20] *The Trade of China, op. cit.*, and *Taiwan Statistical Data Book, op. cit.*, pp. 190–94.

[21] *Exports by Countries* (Ottawa: Statistics Canada, January-December 1980 and other issues).

[22] *The Trade of China, op. cit.*, pp. 36–49, 959–60.

[23] *Ibid.*

[24] *Ibid.*

[25] *Exports by Countries, op. cit.*

[26] *Investing, Licensing & Trading Conditions Abroad: Taiwan* (New York: Business International Corporation, May 1980), p. 4, and same publication for April 1981, p. 5.

[27] *Preliminary Statistics of Export and Import, October 1980* (Taipei: Department of Statistics, Ministry of Finance, 1980), p. 12; and *Trade Opportunities in Taiwan*, Vol. 10, No. 4 (Taipei: World Trade Centre, 25 January 1982).

[28] *Handy Economic Data Kit, 1981* (Taipei: Far East Trade Service, 1981), Table 2.3; *Industry of Free China* (Taipei: Council for Economic Planning and Development, Executive Yuan, November 1980), p. 50; and "Free China's New Four-Year Plan Calls for a Growth Rate of 8 Per Cent Annually," *New York Times International Economic Survey* (14 February 1982), p. 39.

[29] *Handy Economic Data Kit, op. cit.*, Table 1.4; *Industry of Free China, op. cit.*, p. 53; and *Taiwan: A Guide for Canadian Business* (Ottawa: Canadian Chamber of Commerce, 1982), p. 15.

[30] *Industry of Free China, op. cit.*, pp. 178 and 182; *Handy Economic Data Kit, op. cit.*, Tables 2.10 and 2.11; and "Taiwan's Export-Led Growth," *New York Times International Economic Survey* (14 February 1982), p. 41.

[31] Samuel P.S. Ho, "South Korea and Taiwan: Problems and Development Prospects in the 1980s" (Vancouver: University of British Columbia, 1980), pp. 8–9 (mimeo).

[32] *Ibid.*, pp. 9–10.

[33] *Industry of Free China, op. cit.*, p. 21.

[34] K.T. Li, "Economic Development Policies of the Republic of China 1953–1977," in *My Views on Taiwan's Economic Development* (Taipei: Project on Study of ROC Economic Development Strategy in Taiwan, 1980), p. 12.

[35] *Industry of Free China, op. cit.*, p. 21.

[36] "Auto Industry Advancing Steadily, and Exports Are in the Offing," *Modern Asia*, Hong Kong (October 1980), pp. 36–38.

[37] "Tatung Set to Invest in TV Plant in England," *Trade Winds*, Taipei (1 December 1980).

[38] Based on an analysis in *Fortune* (11 August 1980), and *China Steel Financial Statement 1979–80*.

[39] K.T. Li, "Contributions of the Ten Major Development Projects," in *My Views . . . , op. cit.*, pp. 81–93.

[40] There was, however, the "Kaohsiung incident," a noisy rally that turned into a riot on 10 December 1979. The government has blamed this affair entirely on a small band of troublemakers. See James C.Y. Soong, "To Heal, Not to Hate [A Report on the Kaohsiung Incident]," *Free China Review* (February 1980), pp. 9–18. (Available in reprint from the Government Information Office, Taipei.)

[41] *Ten-Year Economic Development Plan for Taiwan, Republic of China, 1980–1989* (Taipei: Council for Economic Planning and Development, Executive Yuan, 1980), pp. 7 and 12.

[42] *Industry of Free China, op. cit.*, p. 17.

[43] *Ten-Year Economic Development Plan . . . , op. cit.*, pp. 1 and 12.

[44] *Economic Progress and Investment Climate in Taiwan, Republic of Taiwan* (Taipei: Industrial Development and Investment Center, 1980), pp. 14 and 16.

[45] Samuel P.S. Ho, *op. cit.*, p. 44.

[46] *Ten-Year Economic Development Plan . . . , op. cit.*, p. 58.

[47] *Ibid.*, pp. 55–58.

[48] *Ibid.*, p. 58.

[49] *Ibid.*

[50] Statement of Economic Affairs Minister Chang Kwang-shih, 25 July 1980.

[51] "Taiwan to Have 26 Nuclear Power Reactors by 2000," *Canada Taiwan Trade*, Vol. 3, No. 1, The Canada Taiwan Trade Council, Toronto, January 1981, p. 4.

[52] *Taiwan Statistical Data Book, op. cit.*, p. 253.

[53] *Ten-Year Economic Development Plan . . . , op. cit.*, pp. 40–41.

[54] "A Show Case in the Park," *Far Eastern Economic Review* (18 July 1980), pp. 40–42.

[55] "Taiwan Plans Auto Complex," *Canada Taiwan Trade*, Vol. 2, No. 2, The Canada Taiwan Trade Council, Toronto, p. 2.

[56] "A Show Case in the Park," *op. cit.*, pp. 40–42.

[57] *The Generalized System of Preferences and the Canadian General Preferential Tariff*, a background paper by G.H. Forrester and M.S. Islam (Ottawa: The Tariff Board, August 1979), pp. 35 and 45.

[58] The Taiwan government has announced that it will spend US$100 million over the coming decade on the construction of wharves exclusively for the unloading of coal, plus another US$80 million for railway and highway facilities for coal transportation. (*Canada Taiwan Trade*, Vol. 2, No. 4, The Canada Taiwan Trade Council, Toronto, p. 4.)

[59] *Ten-Year Economic Development Plan . . . , op. cit.*, p. 58.

[60] "Taipower Signs $1.25 Billion B.C. Coal Deal," *Canada Taiwan Trade*, Vol. 2, No. 4, The Canada Taiwan Trade Council, Toronto, p. 1.

[61] Diplomatic recognition of the People's Republic of China by Canada occurred in 1970. Because the governments of both the People's Republic (mainland China) and the Republic of China (Taiwan) believe themselves to be the only legitimate authority over the entire Chinese people, recognition of the one automatically terminated official relations with the other.

[62] The U.S. Department of Commerce, in a special report on Taiwan as a market published late in 1979, suggested ten categories of manufactured goods covering 149 specific items that were believed to be "best prospects" for U.S. suppliers over the following few years. The ten categories, with the numbers of items in each case in parentheses, were: equipment for the electronics industry (12); metalworking equipment (27); computers and related equipment (13); construction and building equipment and supplies (10); process and quality control equipment (23); laboratory, scientific, and engineering instrumentation (15); automotive equipment (9); health care equipment (18); pollution control equipment (7); and food processing and packaging equipment (15). Also thought to be promising were aviation and avionics equipment, electrical power equipment, engines, and mechanical power equipment. (*Marketing in Taiwan*, Overseas Business Reports 79–34 (Washington, D.C.: U.S. Department of Commerce Industry and Trade Administration, November 1979), pp. 3–9).

[63] See listing at the end of the study.

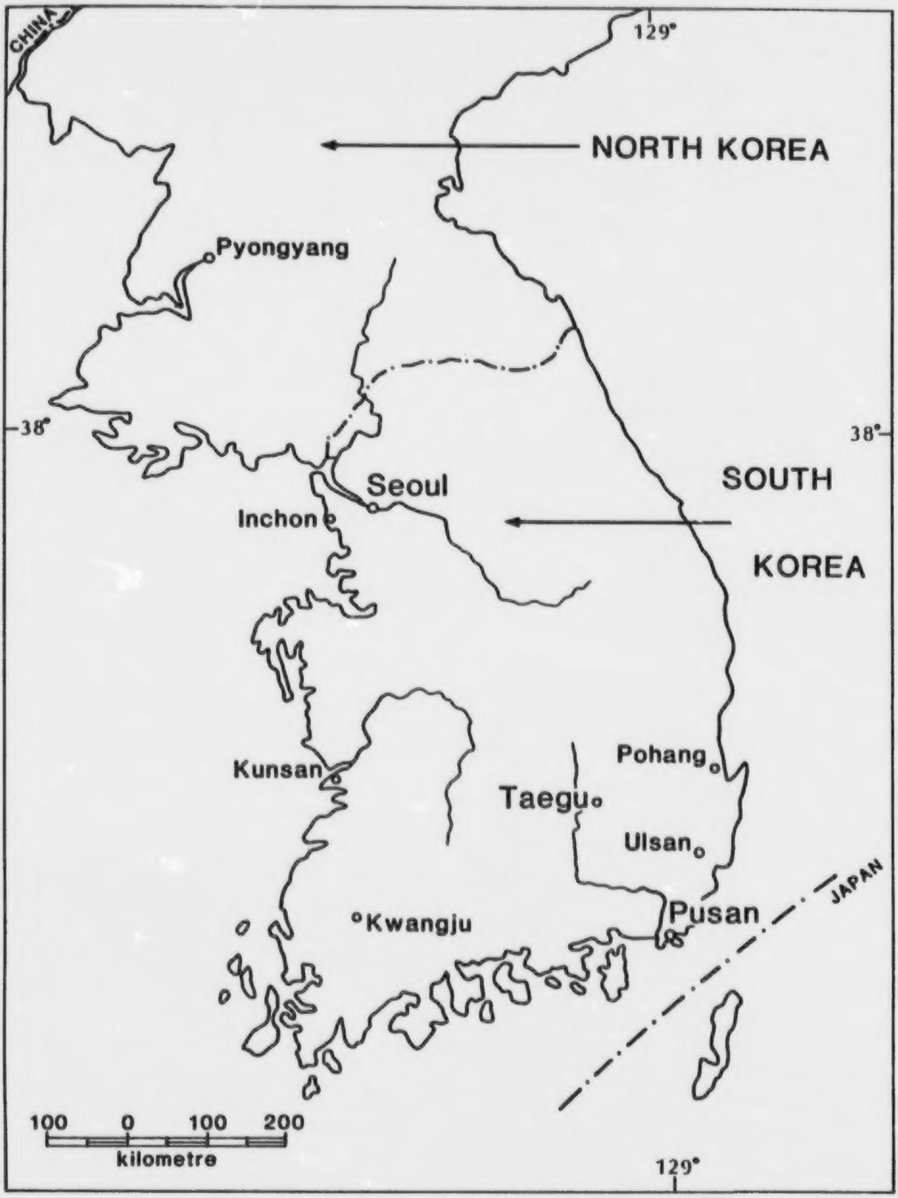
[64] A complete kit outlining these points and all other aspects of Taiwan's laws and attitudes on foreign investment is provided by the IDIC from its offices at 66 Sungchiang Road in Taipei.

[65] Lawrence Lu, *New Incentives and Opportunities for Investment in Taiwan, Republic of China* (Taipei: Industrial Development and Investment Center, May 1980), pp. 7–8.

[66] *Ibid.*, p. 8.

Part Four

Korea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Korea

The Exploding Economy

A Long-Time Hermit Joins the World

Between 1961 and 1976 the economy of South Korea grew at an average of 10 per cent per year, while manufacturing output increased at almost double that rate. The level of per capita income in current dollars rose over the period from less than US$100, which made it a very poor country, to about $700, almost a threefold gain in real terms.[1] Up to the mid-1970s, when serious problems were encountered, Korea maintained the fastest pace of expansion of the three economies this report covers, starting from the lowest base and rapidly overhauling the other two. To see how such a performance has been achieved, let us go back to the beginning of the process.

For two centuries prior to 1876, Korea maintained a policy of isolation and was known as "the hermit kingdom." In that year a Japanese fleet forced it to open its borders to commerce, and in the next several decades trade and other economic relations were developed with many outside nations. At the beginning of the 1900s, however, Japan gradually pushed Korea into submission to its expansionist aims, and in 1910 the Japanese annexed the country and set up a colonial administration.

In many respects the history of Korea from then until 1945 parallels that of Taiwan, since both were considerably "modernized" by the Japanese measures to improve agriculture, broaden the economic infrastructure, update systems of management, and so forth, yet always of course within the strait-jacket of a subordinate position *vis-à-vis* the imperial metropole of Japan. Nevertheless, there were important differences. For reasons that are not entirely clear, technical progress in agriculture was much more marked in Taiwan than in Korea.[2] On the other hand, starting about 1920 the Korean economy became increasingly industrialized, with Japanese support, at first largely in food products and textiles and later in items like chemicals (especially fertilizers) for aiding Japan's war effort. Even before Pearl Harbor, manufacturing output was more than four times as great, relative to total production, as it had been when the country first came under Japan's rule. By 1945 the industrial sector was fairly significant.

Nevertheless, Korea was still a very underdeveloped country dominated by peasant agriculture. The great problem it faced following the defeat of Japan by the allies and reversion to independent status was the partition into Soviet- and United States-oriented spheres along the 38th line of latitude — a division that hardened into permanence with the subsequent refusal of the Russians to allow the north to participate in free elections for a unified national government. The prospect of forming a viable economy out of the truncated territory of South Korea seemed greatly hindered by virtue of the unbalanced structure of the industries that happened to be located in the southern region. This included more than five times the capacity of the north in textiles, two and a half times that in machine tools, and close to twice that in manufactured food products, but only one eighth of the north's volume of production in metals, one fifth in chemicals, and less than a half in ceramics.[3] As well, the great majority of all facilities for hydroelectric power generation were situated in the north and thus unavailable as a source of industrial energy to the South Koreans. And, in addition to the problems related to partition, it became apparent that the Japanese had subsidized output of many industries throughout the territory, as part of their overall imperial design, and many of these activities were hopelessly uncompetitive in a more open international economic environment.

While the new government of the Republic of Korea (established in 1948) and its American advisers were grappling with these difficulties, tension along the frontier with the north grew worse, and in 1950 war broke out between the two halves of the former nation. Each side was heavily backed by its respective superpower, the south being supported by a United Nations force, primarily of U.S. troops. The Korean War, which left more than 300 000 dead on the southern side (the vast majority of them Koreans) and huge material damage, finally came to a halt in 1953, to be followed by wild inflation and a deterioration in already very low standards of living. Yet, within a relatively few years, this tragic picture was to be changed into one of extraordinary vitality and promise.

No one seems too sure what caused the breakthrough. Certainly in the period from 1953 to 1960 or so there was little sign of progress. Despite American aid and a large reconstruction program, GNP rose at an annual rate of just over 4 per cent, which was quite inadequate given that the population was increasing at 3 per cent a year.[4] Average growth rates in both per capita consumption and gross domestic capital formation were less than 2 per cent annually. Exports were an inconsequential US$40 million a year, of which about 5 per cent were manufactured goods. As in Taiwan at this time, economic policy favoured import substitution, but inflows of foreign goods were relatively heavy and were financed mainly by U.S. support. Over 60 per cent of the labour force still worked on farms and about half of total output came from the generally rather backward agricultural sector. Manufacturing accounted for less than 10 per cent of the gross national product.[5]

The dramatic change in the performance of the economy after 1960 has been explained by some observers in terms of the ending of a whole series of constraints that had had an inhibiting effect on Koreans' opportunities for successful commercial organization up to that time.[6] The Japanese occupation, then the Korean War, and subsequently the authoritarian rule of President Syngman Rhee — whose concerns were almost wholly political rather than economic (and whose period in office was marked by widespread turmoil among students and others) — made for circumstances never really auspicious for entrepreneurial endeavour in any but a small and piecemeal fashion. A military coup in 1961, bringing to power President Park Chung Hee, in no sense settled Korea's political life; but it served to establish a far greater degree of stability and, coupled with a firm priority given to economic problems, set free the suppressed energies and entrepreneurial capabilities that evidently had been emerging among the people for some while.

Planning for Growth

In any event, the government inaugurated enlightened economic strategies, in the form of five-year plans, the first of which began in 1962. Programs were instituted to increase savings and investment, to hold down public expenditures, and to move from an import-substitution to an export-promotion policy.[7] In 1964 the won was devalued and devices were introduced to reward export performance (for example, by linking the issuance of import permits to achievement of increased sales abroad). As a consequence of this combination of events, the rate of growth of Korea's economy accelerated to more than 9 per cent a year between 1963 and 1965, exceeding the first five-year plan's target of 7.1 per cent. The plan's goals, which were those of building an industrial base and expanding food grain production, were largely exceeded. With the second five-year plan came an emphasis on investment in the industries producing chemicals, machinery, and iron and steel. Overall growth was projected at 7 per cent annually, and in fact the GNP increased between 1967 and 1971 at about 11 per cent a year. The third five-year plan, presented in 1972, shifted attention to balanced growth, regional development, rural improvement, and enhancing the quality of life of workers. Despite the greater stress on distribution of economic gains, the plan's target for annual GNP growth to 1976 was set at 8.6 per cent; actual expansion averaged 11 per cent.[8]

Manufacturing, particularly for the export trade, was the main generator of this growth. Between 1961 and 1976 output of manufactured goods rose by 18 per cent per year in constant prices, and the share of total production represented by manufacturing widened from 14 to 30 per cent. Merchandise exports, which even as late as 1965 were valued at only US$175 million, grew by a phenomenal 34 per cent annually in real terms to reach almost $8 billion by 1976. Moreover, the concentration on exports of manufactures increased from 82 per cent of all foreign sales in 1965 to more than 90 per cent of the total in 1976.[9] In the years since then, difficulties at home and abroad have begun to slow some of this remarkable expansion. We will examine that later experience and relate it to the goals of the fourth five-year plan (for the period 1977–1981) and the fifth (for 1982–1986) in a following section. For the present let us note simply that the real increase in Korea's GNP picked up from 10 per cent in 1977 to nearly 12 per cent in 1978, but that it fell below target in 1979 for the first time; and in 1980 national output actually declined.

A Major New Actor on the World Scene

Korean Sales Abroad

The composition of Korea's exports has changed more radically over the past ten years or so than that of either Hong Kong's or Taiwan's foreign sales, with heavy industrial production accounting for a larger share. Over the 1970s textile products, the largest export, fell in relative importance, accounting for 30 per cent of Korea's total exports in 1980 compared to 35 per cent a decade earlier, while iron and steel leaped into second position at 10 per cent compared to 2 per cent in 1970. Significant increases have also taken place in the exports of electrical and electronic goods, ships and transport equipment, and footwear[10] (Table 4.1).

Thus, Korea's dependence on textiles and clothing in its export trade is less than Hong Kong's but is still greater than Taiwan's. This dependence is declining more rapidly than in Hong Kong and at about the same pace as in Taiwan, and the shifts in other categories are more pronounced than in either of the other cases.

With respect to the direction of trade, Korea has been more successful in diversifying its export trade geographically, at least so far as reduced dependence on the United States is concerned. That market took only 26 per cent of Korean sales to other countries in 1980 against 47 per cent in 1970,[11] whereas in the same time span Hong Kong and Taiwan achieved little reduction in the 30 to 40 per cent of

Table 4.1
EXPORTS OF KOREA, BY COMMODITY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Total	835	100.0	17 505	100.0
Textiles and Clothing	299	35.7	5 164	29.5
Iron and Steel	13	1.6	1 653	9.5
Ships and Transport Equipment	9	1.1	1 154	6.6
Footwear	17	2.1	874	5.0
Radios, TVs, etc.	44	5.3	836	4.8
Other Electronic Equipment			766	4.4
Fishery Products	41	4.9	670	3.8
Rubber Tires and Tubes	3	0.3	477	2.7
Machinery	8	1.0	369	2.1
Fertilizers	6	0.8	344	2.0
Plywood	92	11.0	304	1.7
Cement	4	0.5	235	1.3
All Other Commodities	299	35.7	4 659	26.6

Sources: *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 470–72; *Monthly Economic Statistics*, Vol. 35, No. 6 (Seoul: Bank of Korea, 1981), pp. 94–95, and other issues; *The Korean Economy 1962–1980* (Seoul: Ministry of Commerce and Industry, April 1981), p. 7.

their exports going to U.S. destinations. However, a large proportion of Korea's total foreign shipments are sold in Japan — the 1980 share of 17 per cent compares with Hong Kong's 4 to 5 per cent and Taiwan's 11 per cent — although this fraction has fallen considerably over the past decade. Additional fairly major Korean markets in 1980 were Saudi Arabia, West Germany, Hong Kong, and Britain (Table 4.2). Canada accounted for 2 per cent of Korea's foreign sales in 1980, the same as in 1970. Taiwan, which received less than 1 per cent of Korea's exports in 1970, had barely increased its proportion ten years later.

The most striking feature of Korea's exports in recent years, and the aspect that chiefly distinguishes that country's sales abroad from the trade of Hong Kong and even Taiwan, is the emphasis on heavy industry. For instance, whereas Korean exports as a whole rose by 26 per cent in 1978, 18 per cent in 1979, and 16 per cent in 1980, shipments to foreign markets of iron and steel increased in the same periods by 40 per cent, 120 per cent, and 50 per cent, and those of fertilizers by 128 per cent, 37 per cent, and 55 per cent.[12] Other growth sectors in export trade during those three years were vehicle tires and tubes, where the increases were respectively 44 per cent, 52 per cent, and 47 per cent, and power generating machinery, where they were 23 per cent, 79 per cent, and 67 per cent. These trends reflect Korea's determination, to which we will refer again later, to develop a

Table 4.2
EXPORTS OF KOREA, BY COUNTRY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
United States	395	47.3	4 607	26.3
Japan	234	28.1	3 039	17.4
Saudi Arabia	—	..	946	5.4
West Germany	27	3.3	875	5.0
Hong Kong	28	3.3	823	4.7
Britain	13	1.6	573	3.3
Indonesia	3	0.3	366	2.1
Netherlands	14	1.6	350	2.0
Canada	20	2.3	343	2.0
France	2	0.2	291	1.7
Singapore	11	1.3	266	1.5
Kuwait	2	0.2	249	1.4
Australia	3	0.3	230	1.3
Italy	7	0.9	229	1.3
Taiwan	7	0.9	216	1.2

— less than US$1 million
.. less than 0.1 per cent
Sources: Yearbook of International Trade Statistics, 1972–1973 (New York: United Nations Department of Economic and Social Affairs, 1974), p. 466; *Monthly Economic Statistics*, Vol. 35, No. 6 (Seoul: Bank of Korea, 1981), pp. 82–93, and other issues.

capability in basic primary industrial spheres as well as in light industry.

It would seem that Korea is, in fact, embarked on a course that differs from the path being followed by Hong Kong and Taiwan. It is focusing its plans for future economic development somewhat less on higher-technology goods in sectors such as electronics, which prima facie appear to have the best immediate growth prospects in foreign trade, being instead inclined to build up a more fully integrated complex of industrial activities over the medium to long run. Admittedly this difference is a matter of degree rather than of kind, and admittedly also the stress on heavy industry in Korea is subject to considerable discussion at present; but such factors are crucial to an understanding of what is taking place in the country. On the assumption that it can overcome its present problems and return to something approaching past growth rates, Korea is probably the most likely of our three countries to become a veritable "new Japan," in the complete meaning of that term, since its larger internal market gives it the opportunity to establish a range of industries that may not be feasible in the smaller economy of Taiwan and certainly is not possible in the tiny city-state of Hong Kong. One should note that only about one third of Korea's total output of goods and services currently goes into exports, compared with close to two thirds in Taiwan's case and a still higher proportion in Hong Kong's case. That is a difference of very considerable importance.

The Canadian Market

In 1979 Canada acquired from South Korea goods worth Cdn$463 million, or some thirty-eight times the figure of a decade earlier, but Canadian imports from that source declined somewhat in 1980 to $414 million, largely owing to supply and price difficulties related to Korean economic problems.[13] In 1981 the figure shot up again, to Cdn$608 million. Over three quarters of these amounts consisted of "end products, inedible" and another one fifth of "fabricated materials, inedible."

Over the decade of the 1970s, the ranking of Canada's imports from Korea changed, but only slowly (Table 4.3). Apparel and apparel accessories were consistently the largest single item, and footwear was always important.[14] However, television receivers and radios moved up from eighth position to second, and other telecommunications and related equipment from nowhere to fourth; iron and steel products also gained more prominence in the list. Likewise, kitchen utensils and tableware and other personal and household goods moved into the top ten, and so did sporting and recreational equipment.

Canadian imports from Korea in the last few years have been focused more than ever on goods other than apparel. Indeed Canada's purchases of Korean clothing rose by only 9 per cent in 1979 (less than a third of the percentage increase in our total imports from Korea); in 1980 they fell by 17 per cent (against a decline of 11 per cent in all Canadian purchases from this source), compared with a drop of 6 per cent in the case of apparel from Taiwan and a rise of 24 per cent in that of garments from Hong Kong. Due primarily to competitive inadequacies reflecting wage inflation and other troubles at home, Korea used no more than 72 per cent of its 1979 Canadian quota allocation for shipments of clothing, and this proportion sank to 53 per cent in 1980. At least as interesting as the decline is the fact that Taiwan's usage of its allocation in 1979 and 1980 was 88 per cent and 72 per cent respectively, and Hong Kong's 93 per cent and 85 per cent, suggesting a poor and weakening competitiveness for the Korean product *vis-à-vis* other trading partners.[15] Also noteworthy is the fact that Canadian imports of televisions, radios, and phonographs from Korea rose from a value of Cdn$30 million to $65 million between 1978 and 1979, but declined to $48 million in 1980. On the other hand, Canada's purchases of Korean steel products climbed from Cdn$10 million in 1978 to $28 million in 1979 and contrived to stay at almost exactly the same amount the following year, notwithstanding the overall decline in Korean exports to the Canadian market.

Table 4.3
CANADA'S PRINCIPAL IMPORTS FROM KOREA[a]
Selected Years 1969–1980

	1969		1972		1975		1977		1979		1980		
	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	% of Total
Apparel and apparel accessories[b]	6 257	1	21 884	1	65 359	1	121 292	1	147 070	1	122 289	1	29.5
Radios, phonographs, & television sets	198	8	1 081	8	9 319	4	29 563	2	65 311	2	48 085	2	11.6
Footwear	1 526	2	5 793	2	15 824	3	22 624	3	35 307	3	43 936	3	10.6
Other telecommunications & related equipment	—	—	—	—	3 980	8	13 056	6	17 971	4	14 456	4	3.5
Other personal and household goods	89	*	644	10	4 483	6	9 804	7	16 617	5	14 075	5	3.4
Sporting and recreational equipment	34	*	253	*	3 052	9	7 459	8	13 556	8	13 362	6	3.2
Synthetic and mixed fabrics	594	6	1 134	6	2 654	*	2 378	*	7 395	*	11 026	7	2.7
Kitchen utensils, cutlery, and tableware	81	*	1 080	9	2 914	*	6 438	10	8 975	*	10 820	8	2.6
Other end products, inedible	796	4	556	*	3 040	10	4 655	*	10 934	10	10 354	9	2.5
Wire and wire rope	120	10	178	*	2 171	*	3 031	*	8 389	*	9 845	10	2.4

Plate, sheet, and strip, steel	—	—	—	—	2 516	*	4 042	*	15 370	7	9 603	*	2.3
Plywood and wood building boards	618	5	1 470	4	17 606	2	22 459	4	16 600	6	9 023	*	2.2
Games, toys and children's vehicles	10	*	189	*	1 979	*	6 734	9	7 590	*	8 731	*	2.1
Broad woven fabrics of natural fibre	828	3	2 442	3	4 047	7	6 358	*	4 975	*	7 906	*	1.9
Other transportation equipment	8	*	183	*	1 524	*	4 655	*	7 804	*	6 454	*	1.6
Vegetables and vegetable preparation	—	—	54	*	5 324	5	13 417	5	13 525	9	4 987	*	1.2
Other textile fabricated materials	168	9	1 118	7	555	*	1 808	*	2 803	*	1 717	*	0.4
Other office machines and equipment	—	—	1 220	5	2 148	*	173	*	737	*	174	*	..
Other non-metallic mineral basic products	285	7	—	—	—	—	—	—	67	*	56	*	..
Total of top ten	11 390		37 866		132 034		252 846		352 261		298 248		
Total imports from Korea	12 192		43 728		166 385		322 724		462 864		414 116		
Top ten as percentage of total	93.4		86.6		79.4		78.3		76.1		72.0		

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* = less than tenth.
.. = less than 0.1 per cent.
[a] Listed in order of ranking in 1980. All product categories are included that fell into top ten in any year during period covered.
[b] Groups together "outerwear, knitted," "outerwear, except knitted," and "other apparel and apparel accessories."
Source: Imports by Countries (Ottawa: Statistics Canada, various issues).

Despite the ups and downs in these amounts, it can be seen that Canadian imports from Korea, although still more concentrated on traditional goods than is the typical package of products shipped abroad by that country, are gradually changing to new spheres and competing with different sectors of Canada's manufacturing industry.

Korea's Imports

Again as with the other two economies under study, Korea has had to face a greatly increased bill for oil imports in recent times, its purchases in this category accounting in 1980 for almost 28 per cent of total purchases abroad, compared with 7 per cent in 1970.[16] The only items looming anywhere near as large in the country's imports in 1980 were those loosely described as machinery, which, if considered all together, represented about 10 per cent of the total, a proportion not greatly changed from ten years earlier (though the constituent elements certainly shifted). Most of the remainder of the list of principal import categories likewise altered only slightly in shares of the total (Table 4.4).

Korean reliance on Japan as a source of imports declined over the past ten years, the share of Japanese goods in the total of foreign purchases amounting to 26 per cent in 1980 as compared with 41 per

Table 4.4
IMPORTS OF KOREA, BY COMMODITY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Total	1 984	100.0	22 292	100.0
Petroleum and Products	133	6.7	6 164	27.6
Chemical Elements	78	3.9	1 081	4.8
Wood	125	6.3	877	3.9
Raw Cotton	63	3.2	604	2.7
Ingots of Iron and Steel	36	1.8	487	2.2
Power Generating Machinery	47	2.3	451	2.0
Professional and Scientific Instruments	22	1.1	367	1.6
Electric Power Machinery	56	2.8	357	1.6
Metalworking Machinery	17	0.9	357	1.6
Aircraft	20	1.0	357	1.6
Plastic Materials	37	1.9	256	1.2
Textile Machinery	74	3.7	162	0.7
All Other Commodities	1 276	64.4	10 772	48.5

Sources: *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 467–69; *Monthly Economic Statistics*, Vol. 35, No. 6 (Seoul: Bank of Korea, 1981), pp. 94–95, and other issues.

cent in 1970.[17] Imports from the United States dropped by a smaller proportion, to 22 per cent from 30 per cent, and indeed this decline is very largely a reflection of the growth in Korea's oil bill, with its resultant enhancement of the role of Middle Eastern nations in the import standing — up to about 25 per cent of the total in 1980 from 6 per cent ten years before (Table 4.5).

In all these respects Korean import trade is strikingly similar to Taiwanese; the percentages referred to above differ by no more than a point or two, for the countries mentioned, in both periods. The rest of the list is also reminiscent of the Taiwan pattern: in 1980 about 10 per cent of Korea's imports came from the European Community (not much changed from 1970), 3 per cent from Australia, 3 per cent from Indonesia, 2 per cent from Malaysia, and so on. Canada's share, at just over 1.5 per cent, was better than the proportion of slightly above 1 per cent that Canadian goods represented in Taiwan's total foreign purchases in 1980. Korean imports from Taiwan were 1 per cent of the total, similar to the percentage Korea's products took in Taiwanese overall import trade, while Hong Kong supplied Korea with less than 0.5 per cent of the latter's global acquisitions.

Table 4.5
IMPORTS OF KOREA, BY COUNTRY
1970 and 1980

	1970		1980	
	US$ Mln.	%	US$ Mln.	%
Japan	809	40.8	5 858	26.3
United States	585	29.5	4 890	21.9
Saudi Arabia	38	1.9	3 288	14.8
Kuwait	31	1.5	1 753	7.9
Australia	14	0.7	680	3.1
West Germany	67	3.4	637	2.9
Indonesia	20	1.0	485	2.2
Malaysia	58	2.9	472	2.1
Canada	23	1.2	378	1.7
Taiwan	34	1.7	313	1.4
Britain	33	1.7	304	1.4
Iran	39	2.0	272	1.2
Philippines	42	2.1	272	1.2
Hong Kong[a]	20	1.0	98	0.4

[a] Hong Kong is included here because of its relevance in the context of the study; Korean purchases from Hong Kong in 1980 were exceeded by those from France, Belgium, Singapore, Switzerland, and Italy.

Sources: *United Nations Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 466; *Monthly Economic Statistics*, Vol. 35, No. 6 (Seoul: Bank of Korea, 1981), pp. 92–93.

Canada in the Korean Market

In contrast to the situations with respect to Hong Kong and Taiwan, Canada's bilateral trade balance with Korea is roughly in equilibrium: a modest trading deficit of Cdn$99 million in 1979 changed to a small surplus of $90 million in 1980. (It will be recalled that in those years the trade deficit with Hong Kong rose from Cdn$290 million to $381 million, while that with Taiwan decined from Cdn$418 million to $306 million.) A decade ago, too, Canada had had a slight surplus in its trade with Korea, and although that surplus soon disappeared, the deficit was always kept within limits by the strength of our exports over the subsequent ten years. The value of shipments from Canada to Korea in 1979 and 1980, at Cdn$364 million and $504 million respectively, was by far the biggest of the Canadian export flows to the three countries — for the latter year roughly two and a half times as great as exports to Hong Kong and twice as large as those to Taiwan.[18]

In general terms, Canada's shipments to the Korean market break down much like those to the Taiwanese, though with a greater emphasis on partly and wholly finished goods. Typically, close to 40 per cent of the total comes into the broad classification "crude materials, inedible" and a roughly comparable proportion into the category "fabricated materials, inedible"; farm produce and fully manufactured non-food items usually account for roughly 10 per cent each. In both 1979 and 1980, however, very large sales of turbines, generators, and other machinery, which alone constituted one tenth of Canadian shipments to Korea, lifted the inedible end products category to between 15 and 20 per cent of the total. They were largely related to the building of a CANDU reactor sold to Korea in 1975 and due to start operating in 1982.

Among the leading exports of Canada to the Korean market, some products have long been important while others have emerged very rapidly into prominence in recent years (Table 4.6). The biggest single item in 1979, coal and other bitumin substances, was of no consequence at all in the trade until 1976; the largest in 1980, "other" inorganic chemicals (which were mainly radioactive elements and isotopes for the CANDU station) had never been of any significance before. Similarly, the categories engines and turbines, which were highly placed in the lists in both years, did not appear in the statistics as of any note prior to 1977. On the other hand, wood pulp has usually been near the top of the ratings, as have raw hides and skins, fertilizers and fertilizer materials, sulphur, and aluminum.

External Investment, Both Ways

Foreign investment in Korea has habitually played a smaller role than that in Hong Kong and Taiwan. The cumulative value between

1962 and 1980 of US$1.2 billion was substantially less than the amount in Taiwan, a much smaller economy; although the figure is greater than for Hong Kong, it represents a less important contribution there too, in relative terms.[19] Of the total, some 50 per cent has been invested by Japanese interests and around 25 per cent by American.

The major sector of non-resident investment in direct forms is the chemical industry, which accounts for about 20 per cent of all such investment, and the second largest among industrial activities is electrical and electronic products with 15 per cent. Investments in the manufacturing of machinery make up another 8 per cent, textile production 6 per cent, output of metals 5 per cent, fertilizer plants 4 per cent, and petroleum refining 3 per cent. In addition, foreign investors are involved in some service enterprises, of which the biggest is hotels and tourism with 15 per cent of the total.

Although, in principle, Korea encourages foreign investment and provides various incentives and privileges to facilitate it, Korean policies are relatively selective as compared with those of Hong Kong and Taiwan. The Foreign Capital Inducement Law limits the amount of equity a non-resident investor may hold in a Korean firm and indicates that foreign involvement is unwelcome in some sectors or industries. While these measures give a good deal of discretion to government departments in interpreting the regulations, rulings are usually provided rapidly and are generally positive if the development concerned promises significant benefits to Korea. Moreover, the intention is to liberalize the restraints on foreign investment progressively as time goes on, and indeed this process is being accelerated in light of the country's present serious problems of international indebtedness.

There is very little in the way of Canadian direct investment in Korea. The only substantive involvement is that of the banks: the Bank of Nova Scotia and the Bank of Montreal have established branches that between them are doing several hundred million dollars' worth of business; the Royal Bank also has a representative in Seoul and some valuable loan operations; the other major chartered banks have no physical presence in Korea but have engaged in lending activity in the country from offices in Hong Kong. (In addition to the two Canadian banks with Korean branches, there are twelve American, five French, four British, four Japanese, and five others — thirty-two foreign banks in all.) In addition, Alcan, Moore Corporation, and Inco have an equity in joint ventures with other firms in the country, and Atomic Energy of Canada, Northern Telecom, and some additional Canadian companies have offices or operations of different kinds.

Table 4.6
CANADA'S PRINCIPAL EXPORTS TO KOREA[a]
Selected Years 1969–1980

	1969		1972		1975		1977		1979		1980		
	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	$000	Rank	% of Total
Other inorganic chemicals[b]	—	—	11	*	10	*	—	—	87	*	137 120	1	27.2
Coal and other bitumin substances	—	—	—	—	—	—	19 456	4	55 558	1	66 224	2	13.1
Wood pulp	1 489	5	8 548	1	10 859	2	20 952	1	38 769	2	49 400	3	9.8
Sulphur	4 623	1	794	9	4 793	6	3 074	10	12 956	9	26 534	4	5.3
Aluminum, including alloys	—	—	1	*	1 911	9	20 654	2	11 562	10	25 750	5	5.1
Fertilizers and fertilizer materials	1 826	3	3 388	4	10 544	3	10 444	6	17 331	6	25 428	6	5.0
Engines and turbines	—	—	—	—	—	—	343	*	36 425	3	17 414	7	3.5
Electric generators and motors	—	—	—	—	—	—	—	—	4 493	*	16 761	8	3.3
Raw hides and skins	439	7	2 136	5	8 128	4	19 628	3	32 081	4	16 130	9	3.2
Other general purpose industrial machinery	6	*	43	*	12	*	15	*	3 213	*	12 989	10	2.6
Oils, fats, waxes, and derivatives	—	—	—	—	5 216	5	11 254	5	17 849	5	11 936	*	2.4
Other telecommunications and related equipment	56	*	5 567	2	19 359	1	262	*	10 147	*	11 420	*	2.3

Copper in ores, concentrates, and scrap	127	*	956	7	3 466	7	6 420	7	17 320	7	9 888	*	2.0
Nickel and alloys	48	*	224	*	542	*	93	*	5 047	*	8 639	*	1.7
Synthetic rubber and plastic materials	20	*	8	*	225	*	1 273	*	15 282	8	7 967	*	1.6
Wheat flour	18	*	—	—	1 885	10	2 367	*	6 088	*	4 026	*	0.8
Copper and alloys	15	*	3	*	2 521	8	1 753	*	5 392	*	2 295	*	0.5
Live animals	1 560	4	56	*	29	*	351	*	2 217	*	1 160	*	0.2
Fish and marine animals	—	—	1 156	6	1 557	*	1 127	*	3 023	*	840	*	0.2
Asbestos, unmanufactured	3 010	2	5 467	3	1 528	*	3 941	8	4 677	*	838	*	0.2
Metalworking machinery	—	—	908	8	15	*	50	*	587	*	796	*	0.2
Medicinal and pharmaceutical products	141	10	—	—	65	*	80	*	211	*	112	*	..
Newsprint paper	450	6	—	—	—	—	—	—	8	*	6	*	..
Primary iron and steel	—	—	265	*	—	—	316	*	2 380	*	—	—	—
Flaxseed	340	8	605	10	—	—	985	*	1 608	*	—	—	—
Zinc and alloys	315	9	224	*	—	—	997	*	—	—	—	—	—
Wheat, unmilled	—	—	—	—	—	—	3 798	9	—	—	—	—	—
Total of top ten	14 193		29 525		68 682		119 621		255 133		393 750		
Total exports to Korea	15 331		32 882		79 188		143 843		364 300		504 086		
Top ten as percentage of total	92.6		89.8		86.7		83.2		70.0		78.1		

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* = less than tenth.
.. = less than 0.1 per cent.
[a] Listed in order of ranking in 1980. All product categories are included that fell into top ten in any year during period covered.
[b] Mainly radioactive elements and isotopes.
Source: Exports by Countries (Ottawa: Statistics Canada), various issues.

As to Korean investment abroad, the flow has as yet been relatively small and aimed very largely at securing a position in raw materials developments designed to provide output for shipment to Korea. It is intended that such investments will be markedly increased, especially in foreign sources of coal, timber, wood pulp, tin, lead, zinc, aluminum, and uranium. Thus during the 1980s Korea can be expected to seek out investment opportunities in Canada's natural resource industries. There is also some Korean investment in clothing and footwear production in countries such as Sri Lanka, designed to make use of lower-wage labour than is now available at home. The relevance of this development for Canada is a shift in the origin of goods most threatening to employment in Canadian manufacturing industry — a point that has been alluded to several times already.

Looking Forward From Today's Uncertainty

Political Turmoil and Economic Slow-down

The assassination of President Park Chung Hee in October 1979 plunged Korea into political crisis. At first, the population seemed relieved by the removal of a head of state whose administration had involved substantial curtailment of individual freedoms. The caretaker government of the new president, Choi Kyu Hah, promised democratic elections within a short time, and the atmosphere of the country appeared to grow appreciably more relaxed. However, despite the liberalization measures introduced by the regime, this tranquillity was short lived.

Before long, student demonstrations were being mounted demanding even more extensive and immediate reforms, and when the incidents grew widespread they were suppressed with extreme vigour by the police. New tensions followed, with confrontations between the authorities and activist groups in several cities. Martial law was declared, the army took control, and twenty-six political and social leaders were arrested. By the summer of 1980, the relatively stable state of affairs that had been an important contributor to Korea's economic success had become seriously jeopardized.

In addition to political problems, the Korean economy suffered other set-backs of several kinds. Economic growth in 1979, at just over 7 per cent in real terms, was a disappointment to people who had become accustomed to far higher rates of annual expansion in national output (Table 4.7), but the situation in 1980 became much worse with a decline in real GNP of close to 6 per cent.[20] What is more, the underlying difficulties showing up in various aspects of the economy became such that a phase of far-reaching retrenchment was obviously necessary before there could be any revival of the buoyancy that had characterized the situation earlier.

Table 4.7
KEY ECONOMIC STATISTICS OF REPUBLIC OF KOREA
Selected Years of the High Growth Period 1954–1979

	1954	1960	1964	1968	1972	1976	1978	1979
1 GNP (Billion won) in 1975 prices	2 318.5	2 845.6	3 671.5	5 195.6	7 365.6	11 275.5	13 877.1	14 862.3
2 Population (Million)	20.8	25.0	28.0	30.8	33.5	35.9	37.0	37.6
3 GNP/Capita (000 won) in 1975 prices	111.4	114.1	131.2	168.5	219.8	314.4	374.9	395.2
4 Share of Value Added in GNP (%)								
Primary Production	50.2	44.3	45.9	34.2	27.8	24.0	19.1	20.6
Manufacturing	5.3	8.4	9.7	15.0	20.9	28.2	31.6	28.5
Social Overhead	44.5	47.3	44.4	50.8	51.3	47.8	49.3	50.9
5 Ratio of Exports to GNP (%)	1.3	2.7	4.4	11.2	21.3	34.9	41.8	32.2
6 Ratio of Imports to GNP (%)	10.2	12.3	11.1	25.9	30.6	40.6	52.8	38.7

7 Average Annual Growth Rate (%)	1954–63	1964–78	1966–73	1974–78	1954–78	1979
Real GNP	4.2	10.0	10.2	10.4	7.7	7.1
Real GNP per capita	1.1	7.8	7.9	8.7	5.2	5.4
Manufacturing Value Added	11.3	19.6	21.2	17.2	16.1	9.8
Real Wages in Manufacturing	0.2[a]	13.5	17.5	12.9	—	8.6
GNP Deflator	16.8	16.5	14.5	21.8	18.3	20.5
Wholesale Price Index	21.2	14.4	7.8	20.3	15.4	18.8
Exports	13.0	29.1	35.4	19.9	24.6	18.4
Imports	7.3	22.9	28.1	19.3	15.4	35.8

[a] 1958–1963 only.

Sources: *National Income in Korea* (Seoul: Bank of Korea, 1971 and 1979); *Economic Statistics Yearbook* (Seoul: Bank of Korea, 1975 and 1979); *Major Statistics of Korean Economy* (Seoul: Economic Planning Board, 1979); and Korean Embassy, Ottawa.

Causes of the Problem

To understand the economic malaise that began in 1979, and to gain some feeling for the likelihood of its continuance, it is necessary to review briefly the recent evolution of Korea's economy, picking up the story outlined earlier.

In light of the experience gained in the first three five-year plans, the fourth plan (for 1977–1981) was designed to shift the emphasis on development towards heavy industry. This was to ensure that the country's overall export competitiveness was not eroded by a deterioration in sales of "traditional" light manufactured goods, whose labour-intensive nature made them obvious candidates for the industrialization ambitions of less advanced developing nations with lower wage costs. Because Korean wages were rising, it was believed that diversification into capital- and technology-intensive activities such as the manufacture of machinery and electronic apparatus, the building of ships, and similar lines of endeavour would be the best way of keeping ahead of newcomers to the industrial scene. In other words, the motivation was similar to that encouraging Hong Kong and Taiwan to move away from such things as clothing manufacture and assembly of simple electrical goods. But the Koreans put more emphasis on heavy industry, and somewhat less on high-technology light industry, than did the Taiwanese (or, of course, the decision makers of Hong Kong given the inherent limitations of the colony's position). Moreover, the government had the clout to bring about these more profound changes because of its elaborate system of centralized planning, backed by ownership of key corporations and strong equity positions in many more (see Figure 4.1).

Another major goal of the fourth plan was to distribute the benefits of economic growth more equitably by increasing employment and enlarging vocational and occupational opportunities, thereby both improving welfare generally and providing for the supply of more highly skilled workers necessary to facilitate adequate productivity in the new industries. Absorption into the labour force of the constantly growing number of young people meant that a move in the direction of heavy industry could not involve down-playing the concern for employment. It was apparent, therefore, that growth must be maintained at an extremely rapid pace, and so targets were set for a further spectacular expansion in output, exports, income, and domestic savings.

The policy worked reasonably well at first but then began to run into increasing difficulty. Problems became critical in 1979 when growth fell short of what had been scheduled; that year exports actually declined in volume terms (although increasing by 18 per cent in value) and the balance of payments recorded a deficit of US$5.3 billion, up over $1 billion from the year before.

Figure 4.1
GOVERNMENT-OWNED AND -CONTROLLED ENTERPRISES IN KOREA

Wholly State Owned
Agricultural and Fishery Development Corporation[a]
Agricultural Development Corporation
Bank of Korea
Dai Han Coal Corporation
Industrial Estates Development Corporation
Korea Appraisal Board
Korea Development Bank
Korea Dredging Corporation
Korea Exchange Bank
Korea Export-Import Bank
Korea Film Promotion Corporation
Korea General Chemical Corporation
  (and subsidiaries Chung-Ju Fertilizer Corp. and Honam Fertilizer Co.)[a]
Korea Highway Corporation
Korea Housing Bank
Korea Housing Corporation
Korea Insurance Corporation
Korea Investment Corporation
Korea Marine Industry Development Corporation
Korea Mining Promotion Corporation
Korea National Tourism Corporation
Korea Overseas Development Corporation
Korea Stock Exchange
Korea Trade Promotion Corporation
Land Development Corporation
Petroleum Development Corporation

Partially Owned by State (at least 50%)
Korea Electric Company[b]
Korea Oil Corporation[c]
Korea Securities Financing Corporation
Nestlé Korea[c]
Pohang Iron and Steel Company
Yongnam Chemical Company[c]

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[a] The AFDC and KGCC also operate joint ventures with foreign interests.
[b] The government is acquiring the remaining private shares in Korea Electric to make it 100 per cent state owned.
[c] Joint venture with foreign interests.

Essentially, the causes of this situation were twofold: the recession in the world economy, accompanied by a rise in oil prices and in protectionism in some of Korea's important overseas markets; and the inflation and loss of competitiveness in Korean industry, due to excessive investment in too many costly large-scale heavy industrial projects and to expansionary monetary policy, so that wage gains outstripped productivity improvements. Of the former there is not much that needs to be said, since the problem is all too evident. As to the latter, one may note that the growth in Korea's money supply was 39 per cent in 1977 and 35 per cent in 1978, implying that the monetary system was pumping tremendous resources into sectors whose potential had to be re-examined in view of rising oil prices. In 1979 money supply growth was held to 21 per cent, but inflation had taken hold and productivity improvement was slipping: prices rose by more than 20 per cent that year,[21] and productivity, which had increased by an average of 10 per cent annually through the earlier years of the decade, well ahead of the gains in real wages, dropped to 6 per cent while the real-wage rise was 9 per cent.

One may see some of the results of this combination of circumstances in Table 4.8. The rise of 28 per cent in nominal wages in Korea in 1979, accompanied by the slow-down in the pace of productivity improvement, led to a jump in unit labour costs of 14 per cent, whereas Taiwan experienced an increase in its unit labour costs of only 5 per cent.[22] Moreover, the comparable costs in Korea's major foreign market, the United States, moved up by just 6 per cent in 1979, while those in the second biggest Korean market, Japan, actually dropped by 3 per cent.[23] Not surprisingly in these circumstances, Korea's 18 per cent gain in exports that year, in value terms, compared with a rise in the foreign sales of Taiwan of 27 per cent and an increase in those of Hong Kong of over 30 per cent.[24]

Already in early 1979 the government was well aware of the difficulties that were emerging. It introduced a far-reaching stabilization program involving a tight fiscal and monetary policy and making basic structural changes in the economy aimed at giving greater play to market forces. The rates of growth in domestic credit and in the money supply were drastically curtailed, a fiscal surplus was budgeted for, plans for sharp continued increases in national production and exports were deliberately scaled down in favour of achieving price stability, and the emphasis on heavy industry and chemicals in the development schedule was reviewed. A new Economic Management Plan was prepared,[25] covering 1979–1981, which revised the original five-year plan for these years. Most of the revisions were downward.

1980: A Year of Adjustment

As the political situation erupted in 1980, breaking into phases of violence and repression followed by periods of uneasy calm, the economy moved into its painful adjustment to straitened and generally far less hopeful times. Accepting the need for a substantial realignment of the Korean currency to correct worsening competitiveness, the central bank permitted a series of devaluations during 1980 that took the won from 484 to the U.S. dollar in January to 660 in December. Unemployment, officially stated at year-end to

Table 4.8
INDICES OF UNIT LABOUR COSTS IN KOREA, TAIWAN, UNITED STATES, AND JAPAN, 1972–1979
(1975 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979
Korea	65.4	71.1	85.5	100.0	126.1	147.0	173.2	196.9
Taiwan	65.2	70.5	100.9	100.0	95.3	94.8	90.1	94.3
United States	74.6	76.7	84.9	100.0	100.7	107.3	115.7	123.2
Japan	59.8	62.0	80.4	100.0	99.4	104.0	102.0	99.1

Source: Data from the Economic Planning Board, reproduced in *Korea: Current Developments and Policy Issues* (Washington, D.C.: The World Bank, 1980), p. 14.

have averaged 5 per cent in 1980, was reckoned by the Korean federation of trade unions to have been about 15 per cent.[26] Despite the strictures of government, Korean wages rose by over 20 per cent during the year, against perhaps two thirds of that amount in Taiwan.[27] Inflation ran at almost 40 per cent on an annual basis. It is clear that export opportunities for all countries were weakened in 1980 by the fact that world trade grew very little, in real terms, whereas it climbed by about 7 per cent in the previous year, and protection of domestic markets in the advanced nations became more pervasive as the recession deepened. Even so, whereas Hong Kong managed to increase its 1980 sales abroad (including re-exports) by 30 per cent and Taiwan by 23 per cent, the rise in Korea's case was lower — some 16 per cent (or about 7 per cent by volume), despite the devaluation.[28]

In anticipation of the challenging years ahead, Korea's Economic Planning Board announced in the summer of 1980 a set of guide-lines for the next five-year plan — officially the Fifth Economic and Social Development Plan (1982–1986). This document recognized that mistakes had been made in the past, especially in the inflationary financing of investment, and placed great stress on the need to correct the three problem areas of recession, inflation, and balance-of-payments deficit. Its focus was on stability and the promotion of efficiency throughout the economy. Even so, it noted that growth in national output would have to equal at least 8 per cent per year over the period in question in order to absorb the continued increase in numbers of young people wishing to enter the labour force.[29]

As cited in the *Economic Bulletin* of the Economic Planning Board, the main steps to be taken in the new plan, details of which would be worked out in a series of committees and sub-committees during 1981 (it was in fact approved in August 1981), were as follows:[30]

1. Inflation: maintenance of supply elasticity, stabilization of the cost of housing and public utilities, and creation of a more competitive market system
2. Competitiveness of heavy and chemical industries: establishment of a pattern of specialization by firm, improvement of the incentive system, and undertaking of new projects within the limitations of available resources
3. Agricultural policy: aiming at self-sufficiency only in areas where the nation enjoys a comparative advantage, gradually phasing out high price support programs for grain production, and increasing non-agricultural farm income
4. Energy: increasing the use of coal and nuclear power, diversifying energy supplies, enforcing conservation measures, and encouraging investment in less energy-intensive industries

5. Financial reform: moving from government control to the market principle of competition, and inducing increases in household savings
6. Fiscal management: reform of the tax structure for greater revenue, expansion of public spending on education and manpower, and increase in the flexibility of budget making for greater anti-cyclical management
7. Normalization of the market: improvement in international competition through import liberalization, reduction in monopolist and other restraints on competition, and the training of specialists in overseas market exploration
8. Manpower: ensuring broader access to educational opportunities, improving the quality of education at all levels, expanding vocational training, and increasing investment in technology development
9. Labour-management relations: development of the arbitration system, reduction of unreasonable wage discrepancies, and improvement of working conditions
10. Social development: improvements in income distribution, provision for basic needs of all the people, and establishment of a social security system.

These changes, it is believed, will help to permit Korea to achieve a satisfactory economic performance in the period 1982–1986. A range of three alternative scenarios has been developed by the Economic Planning Board for the period covered, based on optimistic, median, and pessimistic assumptions about various key factors in the outlook. The major economic aggregates according to each of these three scenarios are shown in section 1 of Table 4.9, which then outlines sector growth and shares on the basis of the median scenario; section 4 of the table records the estimates made for trade and balance-of-payments performance in terms of the different scenarios.[31] Some commentators have suggested that the prognosis even on a median scenario (with average annual real GNP growth of 8 per cent) is perhaps unrealistic, particularly with respect to inflation and investment.[32] None the less, the government is proceeding on this basis.

How Clear the Prospect?

Thus what one sees is a current crisis far more acute than in our other two countries. However, a very determined attempt is being made by the Korean authorities to recover both political stability and economic growth, which of course are interrelated. Because it is crucial to the future of Korea as a viable entity capable of maintaining its now quite important position in the world economy, the present situation deserves examination in a little more detail.

Table 4.9
GUIDE-LINES FOR KOREA'S FIFTH FIVE-YEAR PLAN, 1982–1986
Based on Three Alternative Scenarios

			1982–1986		
	1972–76	**1977–81**	**I**	**II**	**III**
1. *Real Growth* (%)					
Gross National Product	10.1	6.9	9.0	8.0	6.5
Private Consumption	7.5	6.5	7.2	6.1	5.5
Capital Formation	11.1	13.7	8.7	7.1	6.2
GNP Deflator	20.9	19.4	10.0	11.0	14.0
	1962–66	**1967–71**	**1972–76**	**1977–81**	**1982–86**
2. *Sector Growth* (%) (median scenario)					
Gross National Product	7.8	9.7	10.1	6.9	8.0
Agriculture, Fishery, and Forestry	5.6	1.5	6.1	1.7	2.5
Mining and Industry	14.3	19.9	18.0	10.1	10.2
Manufacturing	15.0	21.8	18.7	10.3	10.4
Social Infrastructure, etc.	8.4	12.6	8.4	7.1	8.4
Social Infrastructure	17.8	20.7	13.0	12.2	10.1
Others	7.1	10.9	7.0	5.0	7.4
3. *Sector Shares*[a] (%) (median scenario)					
Agriculture, Fishery, and Forestry	34.4	27.0	23.8	21.5	17.7
Mining and Industry	20.2	22.4	28.8	28.5	30.2
Manufacturing	18.4	21.0	27.6	27.2	29.3
Social Infrastructure, etc.	45.4	50.6	47.4	50.5	52.1
Social Infrastructure	10.2	13.3	12.4	17.9	19.5
Others	35.2	37.3	35.0	32.1	32.6

4. *Balance of Payments and Trade* (current value, US$ million)	1979	1981	1986			Average Annual Growth	
			I	II	III	1971–81	1982–86
Export of Goods	14 700	20 500	59 300	54 600	47 600	21.3	21.6
Import of Goods	19 300	26 000	57 300	57 400	60 500	25.4	17.2
Trade Balance	– 4 600	– 5 500	2 000	– 2 800	–12 900	—	—
Invisible Trade Receipts	4 800	6 700	—	13 800	—	33.2	15.6
Invisible Trade Payments	4 900	7 000	—	14 000	—	32.7	14.9
Invisible Trade Balance	– 100	– 300	—	– 200	—	—	—
Unilateral Transfer (Net)	500	600	—	900	—	—	—
Current Account Balance	– 4 200	– 5 200	2 700	– 2 100	–12 200	—	—
Long-Term Capital (Net)	2 500	2 800	—	2 800	—	—	—
Basic Balance	– 1 700	– 2 400	—	700	—	—	—
Short-term Capital, etc. (Net)	2 500	2 700	—	1 400	—	—	—
Foreign Exchange Holdings	5 700	6 500	—	14 300	—	—	—
Debt Service Burden (%)	13.6	13.2	—	12.7	—	—	—

[a] Based on value of last year of each five-year plan.

I Optimistic scenario

II Median scenario

III Pessimistic scenario

Sources: Economic Planning Board data reproduced in EPB's *Economic Bulletin*, 2 August 1980, and in *Business Asia* (Hong Kong: Business International Asia/Pacific), 29 August 1980.

So far as political developments are concerned, at the time of writing the administration of President Chun Doo Hwan, elected in March 1981, has produced an enhanced sense of direction. Most important, the introduction of a revised constitution and creation of a National Assembly with democratic franchise represents a large step toward the normalization of political life. Extensive changes have been made in the central administration to eliminate inefficiency and corruption from the bureaucracy.[33] Many of the restrictions that had been adopted previously (including martial law, a nightly curfew, and censorship of the press) were lifted or eased in early 1981, and the commuting of the death sentence earlier imposed on opposition leader Kim Dae Jung for crimes against the state helped to relieve tensions. Even so, this is an uneasy peace, and further upheavals — labour problems, more disturbances among students, perhaps widespread political discord and violence — cannot by any means be ruled out. Korea is very much a society in transition.

With respect to the economy, while the emphasis on heavy industry and chemicals has not been abandoned, its growth is being curbed for the moment and some of the most obvious distortions introduced in attempting to build up these sectors are being corrected. Heavy industry had received priority in the allocation of resources during Korea's last development period, but those plans are now being reconsidered and for the most part downgraded. The unfavourable international conditions of falling international demand and rising oil prices, along with excessive, often government-induced, investment has resulted in much excess capacity in certain fields and brought into question the feasibility of pursuing such activities as non-ferrous metals smelting and some petrochemical processes that are high cost and unlikely to show much comparative advantage over the long term.

One of the most striking aspects of the Korean leaders' thinking about their nation's industrial position in the 1980s is the view that there are too many firms in certain spheres. Four companies have been in the market for turbines for power stations, for instance, when even the big industrial countries in most cases have only two or three enterprises in this field.[34] Each of the groups has extensive overcapacity, heavy debts, and other problems. The government has concluded that some consolidation must occur in that industry. Likewise, in the motor vehicle industry, three firms have been competing in a market that in 1979 totalled only 200 000 cars and trucks (of which 30 000 were exported) and in 1980 sank to 150 000 vehicles (20 000 sold abroad), using in effect less than 50 per cent of the installed capacity.[35] Here again, therefore, it has been decided that mergers should take place. Efforts at persuasion having failed, the regime tried to push through this policy by decree, starting with the Daewoo group (chosen to focus on heavy engineering equipment) and the Hyundai corporation (selected for the concentration in automobiles).[36] However, so far the reorganization has not been achieved as planned: serious problems have been encountered in trying to develop viable management systems on the new basis, with the result that Daewoo is now out of power generation equipment, which is to be produced by a new company controlled by the state-run Korea Electric Corporation, and to date it does not appear that the auto industry rationalization will fare any better.

In the electronics industry no such consolidation is apparently planned, even though the top three companies all reported losses in 1980.[37] The industry believes it will achieve its export target of US$2.3 billion worth of products annually and is pinning its hopes for the immediate future on production of colour television sets. Quotas in the U.S. market were increased by 40 per cent as from July 1980, and the Korean government has finally permitted sales of colour sets in the home market — previously closed to this item in order to raise personal saving. Apparently there is little sense of fundamental structural difficulty in this industry.

The View Across the Valley

From all of the above it is obvious that Korea has been going through a period of the utmost difficulty and that maintenance of political harmony and stabilization of the economy will not be easy. However, expert opinion is on the whole reasonably optimistic about Korea's future. Most observers tend to believe that full political normality will be restored and the economic doldrums safely passed through — although it is only fair to add that a minority are far less sanguine, predicting widespread labour unrest, problems of industrial adjustment, and continuing political and social discord. Undoubtedly the early 1980s will be a period of great travail, involving some loss of momentum, which calls for careful policy making if there is to be recovery and fresh vigour in the latter part of the decade.[38]

Some of the necessary action is unquestionably being taken, however, and already an improvement is apparent. The decline in national production of 1980 gave way to a real growth rate of over 7 per cent in 1981. Industrial output expanded by 10 per cent in that year and exports rose by 22 per cent compared with an increase of 17 per cent in imports. Reflecting these gains, unemployment was officially reckoned at year-end to be 4.5 per cent of the labour force, probably again a serious understatement but better than in 1980. Perhaps most important of all, the rate of inflation was almost halved, from 40 per cent the year before to 23 per cent.[39]

Assuming that the outlook continues to be favourable, therefore, one may expect that within a decade Korea will become a highly effective medium-sized economic power, following the Japanese path in many respects but some considerable way behind and, of course, with a less far-reaching industrial program because of its smaller population and narrower overall resource base. Whereas Hong Kong is inevitably confined to the position of an "export platform" so far as manufacturing industry is concerned, and even Taiwan cannot expect to establish complexes of self-sufficient, backward-and-forward-linked industries in very many fields, Korea may seek to develop a range of activities across most of the industrial spectrum.

If there is to be a satisfactory outcome for this energetic people, therefore, what can one expect to form the main lines of policy on which its economic managers will concentrate their attention in the 1980s?

Assuring the Future: Energy and Industry

Without question the major concern will be to lessen Korea's dependence on imported oil. Although the proportion of total energy consumption represented by petroleum is somewhat less than in Taiwan's case — around 65 per cent against over 70 per cent for Taiwan — there is virtually no difference in the problem posed for the two countries by their rapidly rising oil import bill. In consequence, Korea has set forth much the same targets for switching to coal, nuclear power, and other sources of energy that the Taiwanese have established. As Table 4.10 indicates, the goals for 1991 require that consumption of oil, while increasing by some 40 per cent from the levels of 1979, will nevertheless drop proportionately from two thirds of the national total to a little more than two fifths.[40] Consumption of imported coal, on the other hand, will rise twelvefold over the planning period from the equivalent of less than 3 per cent of Korea's 1979 needs to 16 per cent of the 1991 total, while that of nuclear power will jump eighteenfold from 2 per cent of the overall figure in 1979 to 18 per cent in 1991. Another fuel on which the Koreans expect to be able to rely is gas, imports of which are expected to multiply twenty-six times in the twelve years, going from under 1 per cent of the country's energy consumption in 1979 to almost 11 per cent in 1991.

The main policy instrument for effecting the swing away from oil will be the electric power utilities, which will build no new oil-burning thermal plants and gradually phase out those they already operate. Whereas today 80 per cent of all electric power in Korea is produced from oil, by 1986 it is intended that nuclear plants will provide 42 per cent of the energy employed in generating electricity, while coal will be the fuel for another 18 per cent; by 1991 these respective proportions will become 51 and 20 per cent.[41] For industry it has been decided that the switch will be principally from oil to coal, the former falling from 55 per cent of the total in 1979 to 36 per cent in 1991 and

Table 4.10

PROJECTIONS OF KOREA'S PRIMARY ENERGY DEMAND AND SOURCES OF SUPPLY

Thousand kl of Oil Equivalent

	1979		1981		1986		1991		1981–91 Average Annual Growth
	Amount	%	Amount	%	Amount	%	Amount	%	
									%
Demand = Supply	37 885	100.0	42 467	100.0	59 873	100.0	82 780	100.0	6.9
Domestic Production	11 315	29.8	11 252	26.5	11 170	18.7	12 089	14.6	0.7
Coal	7 841	20.7	8 075	19.0	7 967	13.3	7 631	9.2	−0.6
Hydro	582	1.5	535	1.3	726	1.2	1 374	1.7	9.9
Firewood	2 892	7.6	2 637	6.2	2 236	3.7	1 968	2.4	−2.9
Solar	—	—	—	—	241	0.4	1 116	1.3	—
Imports	26 570	70.2	31 215	73.5	48 703	81.3	70 691	85.4	8.5
Coal	1 069	2.8	3 144	7.4	7 816	13.0	13 017	15.7	15.3
Oil	24 383	64.4	26 565	62.5	29 777	49.7	34 349	41.5	2.6
Gas	336	0.9	456	1.1	3 720	6.2	8 744	10.6	34.3
Nuclear	782	2.1	1 050	2.5	7 390	12.3	14 581	17.6	30.1

Source: *Energy Demand Projection and Energy Mix Scenario of Korea* (Seoul: Korea Energy Research Institute, April 1980).

the latter rising from 5 to 27 per cent over the period. So far as residential uses are concerned, the plan calls for increased use of supplies of liquefied natural gas and liquefied petroleum gas.

As in Taiwan's case, some scepticism is being expressed about the feasibility of these targets. Certainly they are exceedingly ambitious, and the overall economic growth-rate assumptions on which they are based are perhaps unrealistic. Of course, if the economic growth forecast is not achieved, then the energy goals will be modified downward; but Korea's planners consider a continued rapid pace of national expansion so important they are determined that energy shortfalls should not themselves be the bottle-neck. Thus they will be prepared to make prodigious efforts to keep the nuclear program going, build the ports and other infrastructure required to bring in coal, and find the means to transport and store the liquefied natural gas and liquefied petroleum gas they need.

Second only to assuring the success of the new energy program (and related to it, as we have noted) is getting the country's industrial complex restructured and fully efficient. In this regard, the emphasis is on rethinking the earlier planning in respect of the heavy industrial sectors.

Probably the key to Korea's goals for heavy industry is the expansion of crude steel capacity, which was around 9 million tons in 1980 and is supposed to exceed 10 million with the enlargement of the largely state-owned Pohang Iron and Steel Company (POSCO) facilities completed in 1981.[42] Korean steel-making facilities are extremely modern and sophisticated. Production rose from less than 2.5 million tons in 1972 to close to 10 million tons by 1981, and exports increased by an average of about 20 per cent a year so that they amount currently to rather over a quarter of total output. The new expansion will put Korea into the category of a significant world producer. A 1979 projection of future growth by the Korea Institute of Science and Technology saw domestic demand rising from almost 10 million tons in 1981 to over 15 million in 1986, while exports over that period went from under 3 million to about 5 million tons.[43] However, some of these targets are increasingly viewed as unrealistic now and will be scaled down.

In non-ferrous metals, the Koreans would appear to have little comparative advantage, especially in those cases where refinery processes are heavy users of energy. Accordingly, the decision has been made not to move further into aluminum processing from the 17 500-ton operation now in place. However, zinc and copper refining is being expanded and a lead smelting works is under construction on the southeast coast; capacities in these three areas are respectively 100 000 tons, 80 000 tons (growing to 100 000 in 1983), and 50 000 tons (on completion of the new plant very soon).[44] Again, though, the goals may also be over-optimistic in light of new circumstances. In any event, there is unlikely to be additional expansion of these facilities in the near future because of the energy-intensive nature of such plants. Korean planners see their non-ferrous metals plants as at most reducing the dependence on foreign refiners and contributing to the development of integrated industrial capacity at home. They do not expect to be selling metal abroad except on an occasional basis.

In the troubled machinery and automobile industries it is difficult to know just what the future may hold, but the official line is still that these are prime growth sectors for the 1980s. A plan announced in the spring of 1980 had the machinery categories expanding rapidly and forming a large element in the export targets established for 1986 and 1991.[45] The category of general machinery, indeed, was to be one of the foremost export items, its foreign sales rising from a value of US$556 million in 1980 to $6 billion in 1986 and $12 billion in 1991, which would represent an average annual increase of 32 per cent. Likewise, exports of precision machinery were to climb from US$375 million worth in 1980 by an annual 23 per cent to $3.7 billion in 1991, while those of electric machines and tools would go from a 1980 level of US$250 million by yearly gains of 21 per cent to $2 billion at the start of the next decade. Clearly, these numbers must now be treated with considerable reserve in view of the present difficulties in the economy, but the government's continued commitment to a strategy of selective industrial development still means that the sectors involved will get very strong support.

Much the same goes for the automobile industry, although its problems are certainly daunting. The planners' targets for this industry as of early 1980 had output of vehicles maintaining the sort of growth that brought its capacity from a 7 000 unit level in 1967 to more than 300 000 units today. That was to mean an increase in domestic demand from 267 000 units in 1980 to over one million (720 000 cars and 350 000 trucks and buses) in 1986, along with a rise in exports over those years from 110 000 units to 700 000.[46] Longer-range forecasts envisaged an annual increase in export values of 38 per cent to 1991, by which time US$8.8 billion worth of Korean vehicles would be entering world markets compared with $255 million in 1980. Now, however, the future of the industry is in some doubt, and, even if current reorganizational efforts work out, it may be questioned whether anything like such objectives for exports can be realized. To a greater extent than Taiwan or indeed than virtually any other country outside the circle of advanced industrial nations, Korea has pursued the aim of developing a more or less autarkic capability in the manufacture of automobiles. Yet the obstacles in its path are formidable. Although the Koreans have the Japanese example to inspire them — Japan's motor vehicle industry having come from almost nowhere into the front rank on the basis of entirely indigenous technology, design, and salesmanship — the much less buoyant state of world car markets now as compared with the heyday of Japanese automotive success makes for a very different environment. Competition is extremely keen and a trend to giantism is seen as the only appropriate outcome: experts consider two million units annually the minimum for a viable operation in today's automobile industry, and they speak of the possibility that there will be no more than nine or ten companies producing all the world's cars by the early 1990s.[47] It is hard to see where even a single Korean independent vehicle maker with a total capacity very optimistically projected at a million units by 1986 would fit into that kind of picture.

But, once again, in so highly planned an economy the determination of the authorities to effect certain results is of enormous consequence, and therefore one must take seriously the intention that the Korean automobile industry will succeed. If Korea is prepared to see its industry more intimately linked to one of the emerging handful of "world car" producers, there is no reason why that sector should not prosper and gain a substantial place in export markets. The outlook for other countries in such a scenario would then be not so much that a competitive challenge from Korean automobiles would endanger their own industries as that the building in Korea of a basically American, European, or Japanese car — or of major components of such a car — would have its effect on their positions.

Another integrated assembly industry, shipbuilding, also has a prominent place in Korea's programs for output and exports in the 1980s. The industry suffered from the global slump of orders during the 1970s but started to pick up toward the end of that decade. Through 1979 it was working at full capacity and 1980 was a generally good year, but the planners' targets still look decidedly optimistic. They have tonnage growing from 4.1 million gross tons in 1980 to 6.5 million in 1986 and an annual increase in export value averaging 25 per cent over the next ten years, so that, by 1991, US$5 billion worth of ships will be sold abroad yearly.[48]

In chemicals, the major factor so far as Korean plans for the future are concerned is the petrochemicals sector, based on complexes at Ulsan and Yeocheon, which between them involve two naphtha crackers and some thirty other downstream plants. The Yeocheon complex, which went into operation in early 1980, is said to include the largest naphtha cracking plant in the Far East. However, these activities too are not without their problems, mainly because of worries about security of feedstock supplies, and their expansion in the 1980s is by no means assured as the government plans to spend more money on projects it considers more advantageous.

In the light industries there are not the same fundamental structural shortcomings as in heavy industry, but cyclical decline associated with the weakness in foreign markets is a concern. As in Hong Kong and Taiwan, the desire to diversify output and exports away from dependence on textile products and footwear towards electronics and similar items is a pronounced feature of policy. Government planners believe that, even with the greatest attention to productivity improvement, the textile and clothing industries in Korea are unlikely to remain internationally competitive for more than eight to ten years and the footwear industry for five.[49] At present the electronics industry is concentrated mainly in the consumer-goods field, and the best prospect there is felt to lie in such equipment as video-tape recorders, which will mean establishing links with the technological leaders in the United States or Japan. It is also planned to develop greater competence in industrial electronics. To that end, and to enhance the capabilities of Korean specialists in the area of computer science and related activities, the government has established the Electronics Technology Research Institute in Gumi, near Taegu. Given preceding sections of this study dealing with the rather similar efforts of Hong Kong and Taiwan in such matters, it is perhaps not difficult to guess what to expect from the equally industrious and innovative Korean electronics engineers, planners, and businessmen.

Other Concerns

In other aspects of the economy, it will be an overriding concern of policy in the 1980s to develop necessary infrastructure, especially as regards the building and expansion of ports for receipt of shipments of coal — and ultimately of liquefied natural gas and liquefied petroleum gas — from overseas. Storage and transportation facilities for these fuels and for other purposes will also be a preoccupation. A lot of capital is likely to be employed in this respect, creating a further drain on Korea's overall resources.

The government will attach considerable importance to the improvement of efficiency in agriculture. At present, protection of farming is such as to raise the domestic price of rice to about two and a half times the world price, while that of barley is roughly three times, milk three times, beef two and a half times, chicken twice, and pork one and a half times the world price level.[50] A policy of self-sufficiency has been followed for rice and barley, and indeed the Korean public is now being encouraged by government publicity to increase its consumption of barley, of which there is an embarrassingly large stockpile. (On the other hand, the country has imported most of its requirements of wheat and corn.)

There is a need to rationalize these policies, even though agricultural subsidization is considered important by the government because of the extent of its political support coming from rural areas.

Korea's spheres of comparative advantage in agriculture are probably in pork, chicken and eggs, and fruit and vegetables. At present, perhaps 50 per cent of farmers' income comes from rice, whereas 25 per cent is from fruit and vegetables and 15 per cent from livestock. It can be expected that those proportions will change over the next decade as the authorities seek to encourage a shift towards areas of production in which efficiency is greatest.

By way of footnotes to this brief reference to agriculture, we should note two other circumstances. First, even if Korea were to become self-sufficient in many farm commodities, it would still be highly dependent on imported inputs such as nitrogen fertilizers and animal feeding stuffs. And secondly, a feature of the Korean farm sector is the very low proportion of farmers' total remuneration that derives from off-farm pursuits: something like a quarter as compared with a half in Taiwan and four fifths in Japan. Both of these matters are likely to receive attention from the government in coming years.

A final area of economic activity that should be mentioned as getting substantial emphasis in the 1980s is overseas contract work. Construction projects in the Middle East and elsewhere involving packages of Korean know-how, equipment, and personnel (including semi-skilled and even unskilled labour) have been a major foreign-exchange earner during the recent relatively thin times for Korean goods exports. The government will seek to continue this sort of undertaking, either in the form of straight all-inclusive arrangements or through joint ventures with the host country and/or third parties, despite the fact that such offshore work is by no means an unmixed blessing. The diversion of resources and labour to contract projects overseas has undoubtedly helped to create shortages at home and thus to push up prices, with adverse effects on competitiveness of merchandise exports. Nevertheless, the policy is seen as Korea's best hope for gaining foreign exchange to pay for oil requirements.

The International Community Looks to Korea

Assuming Full Recovery, What Comes Next?

Because of its serious present difficulties, Korea's capacity to achieve, in practice, the goals it has set itself is subject to a great many reservations, as we have noted. With these reservations go critical implications for the Korean challenge in foreign markets as well as for the opportunities that Korea will provide to others' goods, capital, and technology in its own markets. Nevertheless, the likelihood of a favourable outcome to the current reorganizational efforts — as well as to the uncertainties in the nation's political life — appears sufficiently great to justify the assumption that there will be a large and increasing amount of trade flowing into and out of Korea and a lot of foreign investment interest in the country during the 1980s and beyond.

Dealing first with Korea's exports to the outside world, there are many similarities, in what may be expected henceforward, to the prospects for Hong Kong and Taiwan; however, the broader development of heavy industry in the Korean case gives a rather different slant to the issue here. Certainly, this is essentially a matter of emphasis, especially as between Korea and Taiwan, but the outlook for Korean trade in heavy industrial products will attract growing attention in other countries as the decade advances, whereas in the other two instances the focus abroad is likely to remain primarily on light manufactured goods.[51] That being so, and given that there is a strong parallelism between the movement of Korea's light industry away from clothing, footwear, simple electrical products, and comparable "traditional" items towards electronics and the like, there seems little point in repeating a story that will be familiar to the reader by now. On the whole, in looking at the future prospects for Korean exports, our analysis will concentrate mainly on other things, principally the products of heavy industry.

In a word, then, one may suggest (with admittedly a measure of over-simplification) that Korea's impact on foreign producers in the light-industrial-products sectors will match rather closely the implications of the corresponding trade penetration from Hong Kong and Taiwan. While there will no doubt be some differentiation in lines of specialization and in the relative technical and other successes achieved by each of the three states as they develop their new capabilities, within the context of an overall review such as this the changes in all three must be seen as having roughly the same effects.

There is one qualification, though, that should modify this assumption of close similarity between the impact of Korean light industrial goods and that of comparable products from Hong Kong and Taiwan, which is that a divergence will probably take place simply because of the differences between the potential scope of the three economies. As we have several times remarked, the sheer size of Korea's population offers the opportunity for a more complete spectrum of industries catering to a domestic as well as an export market, which means that ultimately the Koreans will have an adequate enough economic base to emulate the Japanese experience in certain respects at least. However, the time of such altered thresholds is still some way off.

Impacts on Canada

In terms of the Canadian import interest, therefore, for the most part Korea will offer very much the same sort of challenge in electronics and similar high-technology fields as Hong Kong and Taiwan, and like those countries it will reduce only in relative terms its capacity to make life difficult for Canada's producers of clothing, footwear, sporting goods, and a whole range of less technical items. However, a different dimension presents itself in this case by virtue of the ability of Korea to offer in Canadian markets a number of heavy industrial products not available from Hong Kong and manufactured only in smaller quantities and over a narrower range in Taiwan.

The first category of heavy industrial goods to be considered is steel. This is one instance where the Canadian position seems to be markedly at variance with that in the majority of advanced nations. For some years Canada's steel industry has been among the most efficient in the world, and the additional capacity recently put in place provides a further competitive edge to Canadian production. Although part of the advantage is a result of the low external value of the Canadian dollar, which of course could change in the future, the fundamental cost situation is such as to make domestically produced raw and fabricated steel as cheap in Canada as anywhere. Accordingly, the industry view here appears to be that, while Korean steel may increase its share of the Canadian market from time to time in the coming years, depending on the level of demand and the ability of local suppliers to satisfy it, over the foreseeable future there is no substantial danger from this source — always assuming, that is, that steps are taken to assure fair pricing as laid down in the relevant national and international agreements.[32]

There is even less occasion for concern on the part of Canadian producers about competition from Korea in non-ferrous metals. The question is, of course, only whether Korea will rely on countries such as Canada for ores and concentrates, and then compete in markets for the fabricated metal, or whether it will allow the processing too to occur offshore. As has already been noted, Korean planning is now recognizing the inherent disadvantages of a focus on energy-intensive activities like metal refining and is accepting that such production will essentially be limited to supplying domestic requirements at most. Thus the prospect for Canada is of little challenge from this source in third markets and improved opportunities to upgrade its own output before shipping to Korea.

It is somewhat less clear that the same position will obtain in petrochemicals, which are an area of great promise for Canadian exports in the future. While Korea is most unlikely to be a major competitor to a low-cost producer like Canada, the planners in Seoul may consider the substantial industrial development that can derive from petrochemical processes (which would use a relatively small amount of Korea's total imports) a sufficient justification for supporting large-scale endeavours in this sphere. That might well mean a venture into foreign markets in a selected number of lines. Even so, the implications for Canada could be no more than minor.

When one turns to machinery, the clear evidence is that competition in the Canadian market for large items such as power-generation equipment, which once seemed quite probable, is unlikely to be a serious threat for at least a number of years to come. Canada must certainly expect to see the products of Korean heavy engineering industry being offered here, often at attractive prices, but they will be generally of the smaller and rather less elaborate kind. In those fields, however, they will give domestic producers a lot to worry about.

Despite the greater importance of the heavy industries in Korea's economic structure than in that of Taiwan and Hong Kong, essentially all the points made earlier about the shifting impact on Canadian regions and groups of workers apply with approximately equal force in this case as in the other two. Ontario will feel the main impact of any imports of Korean machinery or petrochemicals (or indeed steel) as well as of Korean electronic goods and most of the other "new" light industrial products, whereas Quebec has been the principal region to bear the brunt of Canadian purchases of Korean clothing and footwear. And Ontario will be the province where the biggest adjustments will have to be made if Korean cars in fact become a major element in world automobile markets. As to worker characteristics, again the effects of increased imports in the categories mentioned will hit prime-age males of relatively high education level, rather than the older and younger females with poor schooling that form the bulk of the garment trade and other "traditional" fields. Thus the implications for national policy in Canada must be roughly similar in all three cases even though the industries involved are not necessarily quite the same.

The focus of any efforts of Canadian firms and workers to gain protection from Korean imports is likely, moreover, to be on the Generalized System of Preferences (GSP), as in the case of trade penetration from Hong Kong (though not in the instance of that from Taiwan) for the reasons already raised in previous sections. Although Korea's per capita income level is a good deal lower than Hong Kong's, so that one cannot quite so readily argue that it has graduated from the ranks of poor countries, the strength of its past industrial performance and the relatively broad scope of its economy provide ammunition for those who would question its right to receive special trade treatment as an underdeveloped nation.[53] (Interestingly, as of 1977 the proportion of the imports of seventeen major OECD members that were accepted under GSP arrangements was 14 per cent for Korea against only 9 per cent for Hong Kong.[54]) The GSP advantage is enjoyed by about one third of all goods entering Canada from Korea, or almost exactly the same proportion as is afforded that treatment in Hong Kong's case, but it would seem that the GSP duty rate is zero for a rather larger fraction of the imports from Korea than of those from Hong Kong.[55]

Promising Potential for Exports to Korea

If one turns one's attention from the import to the export side of Canada's trade relations with Korea, the question that first comes to mind is what the chances might be for a substantial Canadian participation in the rapidly growing Korean energy market: for coal, for nuclear power equipment and uranium, and for other fuels such as liquefied natural gas. On the face of things, the opportunities appear to be very great, and indeed already Canadian sales are being made in some of these areas, as we have seen.

Given the earlier treatment of the plans of the Korean government in respect to energy policy, plus our examination in Part Three of the scope for Canada to export coal and liquefied natural gas to Taiwan, whose strategy on this score is so similar to Korea's, there is no need to go into the subject again here in great detail. The significance of Korean needs for imported fuels in the future is clear. According to the planners, while the dependency of Korea on petroleum will fall, in relative terms, between now and the beginning of the next decade, the dependency on imported energy sources generally will rise: in 1979 about 70 per cent of all the country's requirements of energy was derived from imports, and in 1991 it is envisaged that the proportion will be 85 per cent.[56]

The implications of the switch from oil to other imported fuels are as far-reaching in Korea's case as they are in Taiwan's. As was noted earlier, the Koreans see their purchases of foreign coal increasing from not much more than 3 million tons of oil equivalent in 1981 to almost 8 million tons in 1986 and over 13 million tons in 1991.[57] They expect nuclear fuel imports to go up from just over 1 million tons of oil equivalent now to 7 million in 1986 and close to 15 million by the start of the 1990s. And they look for imported gas to emerge as one of the big energy sources, jumping from less than 0.5 million tons of oil equivalent to more than 3.5 million to very nearly 9 million over the 1981–1986–1991 span. As with Taiwan, there are enormous obstacles to bringing off such a dramatic expansion in inflows of materials, from such a relatively low base, and it is far from certain that the task can be accomplished. None the less, past evidence of Korea's capabilities suggests that the problems will be overcome if it is humanly possible. The abundance of Canada's resources, plus the location of many of them on or near the Pacific coast, seem sure to mean that a sizeable share — current estimates are 30 per cent — of this sharply increasing demand will be supplied from Canadian shores.

Securing long-term contracts for the supply of coal — for steel-making, electric power generation, and other purposes — has become a major preoccupation of Korean policy, and prospects around the world are being canvassed. Since 1974 POSCO (Pohang Iron and Steel) has been receiving a million tons of metallurgical coal a year from the

British Columbia company Kaiser Resources, now B.C. Coal, and that contract may well be renewed when it ends in 1985. More recently POSCO took a 20 per cent interest in the same company's Greenhills Mine (an investment valued at about $50 million), which will entitle it to 500 000 tons of metallurgical coal annually from that source over a twenty-year period starting in 1983. Another POSCO deal involves a ten-year contract with Fording Coal of Calgary to purchase 200 000 tons annually, worth over $135 million at today's prices.

So far as electric power generation is concerned, Canadian mines will supply coal for some of the four coal-fired thermal power plants now under construction in Korea, for completion in the mid-1980s. With further expansion of the demand for electricity, the need for more import contracts in respect of all types of coal is evident. The groups Samsung, Daesung Mining, and Hyundai Heavy Industries are looking into prospects for coal developments in Canada through the formation of joint ventures,[58] and Daewoo also has an interest.

As to the nuclear program, some slippage has occurred in the earlier plans for building something like 40 reactors by the year 2000. The more likely figure is 15 to 25, which would still represent about one reactor a year. A first nuclear facility is now operating, two more are due to start functioning by 1983, and construction has begun or contracts been awarded for a further five. Pressurized light-water systems appear to be the preferred type of plant, but the purchase of the CANDU reactor makes it clear that other systems can be acceptable also. The Koreans evidently want to avoid reliance on only one supplier — so far American, French, and Canadian equipment has been purchased — and more CANDU contracts are a decided possibility. Needless to say, the competition is extremely keen. The Korean government has been active too in seeking sources of uranium, and it has already signed agreements with Australian, U.S., and Canadian suppliers, including a ten-year arrangement with Rio Algom and Eldorado Nuclear that could be worth $250 million and has provision for some processing in Canada.

The targets for import of liquefied natural gas are producing similar activity. An investment of US$1 billion over the coming five years is scheduled for the building of a deep-sea port suitable for liquefied natural gas tankers, and a lot of work is being done to determine the best available sources of natural gas and the most economic way of bringing it to Korea; clearly, Canada is a potential supplier. However, many difficulties stand in the way of this development. Prospects for shipping in liquefied petroleum gas are also being investigated. Once more Canada might be a source if the technical and logistical problems can be overcome.

Raw Materials and Farm Products

After energy resources, Canada's most promising export items in the Korean market are likely to be industrial raw materials such as metals, non-metallic minerals, forest products, and certain chemicals. The prospects can be inferred from an assessment of Korea's needs in these spheres.

Iron ore is not too pressing a problem, because long-term contracts have been made with Australia for large volumes of this commodity. However, the Koreans would like to diversify their sources as an insurance against labour troubles or other difficulties in that country with the potential to interrupt supplies. The problem for Canada in supplying the Korean market is that its iron ore mines are in Quebec rather than in the West, which means very heavy transportation costs. Extremely large bulk carriers are needed to make the long voyage half-way round the world an economic proposition. However, Quebec iron ore has been sold to Japan, so it is not an impossible proposition.

In non-ferrous metals the outlook, except for aluminum, is somewhat obscured by Korea's apparent failure to decide positively whether or not it will aim to become permanently self-sufficient in copper, lead, and zinc; but the question affects the form of import of those materials rather than the likelihood of their being imported at all. If the concern over energy supplies leads the Korean government to abandon the goal of self-sufficiency once present expansions of its metal refining plants have been completed, then there will be opportunities for Canadian sales of copper, lead, and zinc in finished ingot or even in more fully fabricated products. If, however, additional capacity is eventually put in place, there will still be an increasing need for ores and concentrates. In either event, Canadian mines have the chance to increase their output for this market, possibly in collaboration with a Korean partner. Yongpong Mining (which has an office in Vancouver) is said to be actively exploring lead and zinc prospects in Canada.[59] By contrast with the uncertainty in Korean policy with respect to these last-mentioned three metals, there is clearly no intention to enlarge the small aluminum smelting operation but rather to rely on imported aluminum. Accordingly, Canadian suppliers are very well placed to increase the level of their shipments above the recent level of approximately 20 000 tons annually.

As to non-metallic minerals, the outstanding prospect is asbestos; in forest products, it is wood pulp; in chemicals, it is potash, as well as sulphur. Moreover, there are many other less obvious examples of industrial materials in which Canada has an excellent chance to secure markets in Korea, provided that the Korean economy recovers to something like the rate of growth that it achieved in the 1960s and early 1970s. In the most optimistic scenario of future development, indeed, Korea could begin to provide for western Canadian exporters an outlet in the full range of industrial commodities second only to that offered by Japan among Asian countries.

Unfortunately such opportunities appear much less likely to arise for Canadian farm-product exporters, because of the elaborate protection of Korean agriculture, described earlier.[60] Korea has been an importer of beef (mainly from Australia) and pork (the United States, Taiwan, Australia), but these have up to now been very variable markets. Better prospects for Canada are wheat, perhaps barley, and rapeseed, linseed, and some other crops mainly for livestock feed, as well as cattle for upgrading Korean herds.

The new policy of moving away from farming activities in which Korea clearly has no special advantages should mean that wheat markets will be increasingly open to foreign suppliers, and Canada is obviously well able to provide high-quality grain if given the chance. In regard to barley, Korea is now more than self-sufficient and has been promoting increased consumption by the public; however, Canadian exporters have urged the use of barley as a feed grain, and, although the government has so far generally resisted such a policy, there could eventually be sales to be made from Canada for Korea's growing livestock population. The same goes for other feedstuffs, especially rapeseed in which Canada has distinct advantages as a supplier; the Koreans are using some of this but could take more. In Korean plans for food and agriculture through 1986, the largest increases in projected consumption are of chicken, eggs, and milk, implying strong demand for feed for the poultry and dairy sectors.[61]

For some time the Korean government has sought to upgrade the quality of its beef and dairy herds through importing cattle from several countries, including Australia, New Zealand, and Canada. It appears that Canadian cattle have earned a reputation for high quality and competitive price, and in some years Canada has sold several thousand animals, worth many millions of dollars. The cattle import program was cut back in 1980 because of falling beef prices as well as certain problems in the handling of breeding stock by Korean farmers. It remains to be seen whether the arrangement is reactivated, but if so Canada will be in a position to make additional sales in this sphere.

There is no very great likelihood of exporting fish products to Korea, which has an extensive fisheries industry. At best, one might project only a limited market for certain special items here and there, perhaps mainly to cater to the tourist and luxury trades. Again, as in Taiwan the best Canadian prospect appears to be frozen squid.

Korean Needs for Manufactured Goods

As might be expected, given the similarity of Korea's secondary industrial development to what is happening in Hong Kong and

Taiwan, Korean requirements for imported manufactured goods in the future are likely to be much the same as in the other two cases, though with certain differences.

- In view of the need for commercial and residential buildings, as well as for infrastructural improvements of various kinds, a restoration of past economic growth will create lively demand for construction equipment.
- The expansion plans of industry suggest a call for power generation and transmission and distribution equipment.
- One may expect a widespread increase in use of metalworking and finishing machinery, much of which still has to be imported, as well as of materials handling equipment, process control instrumentation, and similar items as yet largely derived from overseas sources.
- The concern about energy will give rise to a stress on energy saving devices, while the problems of industrial effluents and other pollutants in a crowded country will make for pressure to install anti-pollution equipment; both of these could be strong exports from places where such technology is further advanced than in Korea.
- Efforts to enhance quality and performance in established activities will encourage importation of specialized machinery for the textile and apparel industries, while the emphasis on electronics will contribute to demand for the latest in production and testing equipment for that industry, as well as for certain particular types of components.

Not much at variance, either, from the prospect of the other two economies will be the general push for modernization and elaboration of productive endeavour. It would be surprising if future Korean imports did not include a range of highly sophisticated scientific and laboratory instrumentation and industrial electronic goods, as well as computers and peripheral equipment. Another major category in the import package henceforward is certain to be telecommunications equipment. Already the decision has been made to upgrade the country's entire telephone system, and Northern Telecom is one Canadian firm in a strong position to gain further contracts following its initial success in a $60 million sale of digital switching equipment and related apparatus for long-distance services.

Finally, as living standards improve and the people look for a better life, one may envisage that their buying patterns will change, on the one hand, and their expectations in terms of social services will become heightened, on the other. Much depends on the response of government to these developments. However, assuming the marketplace is not unduly restricted, exporters in other countries will find themselves able to compete for a share of what is sure to be a dynamically evolving demand for consumer goods, of every kind and description, while at the same time certain foreign industries will be in a position to tender for contracts to supply specialized items such as, for example, medical equipment needed by the growing health-care sector.[62]

Investment Possibilities

In its policies on foreign direct investment, the government of Korea has not been quite as open as those of Hong Kong and Taiwan, and rather less specific as to the fields of industry in which it encourages foreign participation, but it is now loosening up. An indication of kinds of enterprises that may be good prospects is provided by government regulations as to the fields in which high proportions of foreign equity are allowed, since of course that concession reflects anxiety to attract such activities — which in a very heavily directed economy can in turn mean good chances of flourishing if one responds to the official encouragements. These acceptable concerns are ones that promise to make available sophisticated technology and to provide access to world markets.

Foreign investors will be especially favoured where one or more additional characteristics are present:

- They aim at exporting all their output and do not compete with domestic producers for markets
- Their processes do not attract local investors because of heavy capital requirements, technological complexity, or initial risk
- They are multinational firms that have been permitted 100 per cent ownership in other countries because of exclusivity of technology and operations
- They come from a country that has not invested to any great extent in Korea and might be expected to do so more in the future if their project goes ahead.

While the precise nature of industrial and other investment opportunities in Korea is still not made clear by these specifications, their juxtaposition with the references made earlier to developments in the Korean economy and in trade prospects should give a number of clues to the probable lines of activity that might succeed there. It is worth noting too that up to 100 per cent of foreign ownership is permitted to firms establishing operations in the industrial estates located at Gumi (in the south-central region) and Changwon (in the southeast), which are devoted respectively to electronics and machinery production. There is no doubt that these two industries are prime candidates for investment by non-resident interests. So far as Canada is concerned, some of the high-technology firms in telecommunications and computer technology would probably be very much welcomed and might have a good prospect of thriving. In any event the mention in the last paragraph of investments from countries that have not been much involved in Korea in the past should certainly make for advantages for Canadian firms in initial entry.

Needless to say, there are many non-industrial investments also that can be profitable for foreign firms, including Canadian ones. As has already been noted, thirty-two foreign banks have branches in Korea, of which two are Canadian, and the potential for financial transactions in support of local and international business is such that there may be scope for more in due course. The Bank of Nova Scotia was a partner with the Bank of America in a US$64 million loan that made possible the big telecommunications project in which Northern Telecom is involved. There has been a lot of business for both the Canadian banks in Korea thus far, and with the planned easing of restrictions on the operations of foreign banking institutions this business should improve further.

Large-scale infrastructure developments are another good possibility for foreign firms, as the Northern Telecom contract shows. This type of work can make for openings not only in the major construction and installation of facilities but also in design and consulting by many different enterprises, including some that are quite small.[63]

The prospects for consulting in support of large infrastructure assignments extend, in Korea's case, to investigation of the possibilities for offshore projects in which there can be two, three, or more contributing parties depending on the circumstances. There is much interest in Korea these days in extending the very successful construction efforts carried out in the Middle East and elsewhere to other countries and other fields. However, such a widening of the scope of these exercises would almost certainly result before long in the need to bring in more specialized expertise and professional services, as well as perhaps some capital or financial mediation, in addition to Korean basic technical capability and direct labour. In view of the past experience of Canadian engineering and other consultants in foreign contracts, plus their apparent acceptability in Third World countries where this sort of endeavour is likely to be mainly centred, there is a distinct opportunity for Canada here.

Notes

[1] *Korea: Policy Issues for Long-Term Development*, report of a mission sent to the Republic of Korea by the World Bank (Baltimore: The Johns Hopkins University Press, 1979), pp. 15–16.

[2] Paul W. Kuznets, *Economic Growth and Structure in the Republic of Korea* (New Haven: Yale University Press, 1977), p. 18.

[3] *Ibid.*, p. 21.

[4] *Ibid.*, pp. 44–45 and 86.

[5] *Ibid.*, pp. 51, 54–55, and 86.

[6] *Ibid.*, pp.47 and 87–92.

[7] *Korea: Policy Issues . . .*, *op. cit.*, pp. 18–19.

[8] *Ibid.*, p. 15, and Kuznets, *op. cit.*, pp. 196–216.

[9] *Korea: Policy Issues . . .*, *op. cit.*, pp. 16–17.

[10] *The Korean Economy, 1962–1980* (Seoul: Ministry of Commerce and Industry, 1981), p. 8, and *Yearbook of International Trade Statistics, 1972–1973* (New York: United Nations Department of Economic and Social Affairs, 1974), pp. 470–72.

[11] *Monthly Economic Statistics*, Vol. 35, No. 6 (Seoul: Bank of Korea, 1981), pp. 92–93; and *Yearbook of International Trade Statistics, 1972–1973*, *op. cit.*, p. 466.

[12] *Monthly Economic Statistics*, Vol. 35, No. 6, *op. cit.*, pp. 94–95.

[13] *Imports by Countries* (Ottawa: Statistics Canada, January-December 1980 and other issues).

[14] *Ibid.*

[15] Office of Special Import Policy, Department of Industry, Trade and Commerce, Ottawa.

[16] *Monthly Economic Statistics*, Vol. 35, No. 6, *op. cit.*, pp. 94–95, and *Yearbook of International Trade Statistics, 1972–1973*, *op. cit.*, pp. 467–69.

[17] *Monthly Economic Statistics*, Vol. 35, No. 6, *op. cit.*, pp. 92–93; and *Yearbook of International Trade Statistics, 1972–1973*, *op. cit.*, p. 466.

[18] *Exports by Countries* (Ottawa: Statistics Canada, January-December 1980 and other issues).

[19] *Investing, Licensing & Trading Conditions Abroad: Korea* (New York: Business International Corporation, June 1981), p. 7.

[20] *Monthly Economic Statistics*, Vol. 35, No. 6, *op. cit.*, p. 132.

[21] *Monthly Review*, Vol. 14, No. 2 (Seoul: Korea Exchange Bank, February 1980), p. 11.

[22] Ron Richardson, "The Battle to Span the Energy Gap," *Far Eastern Economic Review* (8 August 1980), p. 42.

[23] *Korea: Current Developments and Policy Issues* (Washington, D.C.: The World Bank, 1980), p. 14.

[24] *Ibid.*, p. 13; Richardson, *op. cit.*; and national trade statistics.

[25] *Korea: Rapid Growth and the Search for New Perspectives* (Washington, D.C.: The World Bank, 1979), pp. 68–75.

[26] "Stronger Unions, Weaker Pay Claims?" *The Economist* (23 August 1980), p. 56.

[27] Conversation with staff member of Korean Embassy, Ottawa. According to figures from the Korea Development Institute, the nominal wage increase in 1980 averaged 22 per cent but the real wage fell by 6 per cent. Labour productivity is estimated to have risen by 4.5 per cent.

[28] The fall in the external value of the Korean won during 1980 is calculated by Western observers at 28 per cent but by the Koreans themselves, using a different measurement formula, at 36 per cent.

[29] *Economic Bulletin* (Seoul: Economic Planning Board, 2 August 1980), p. 1.

[30] *Ibid.*, pp. 1–2.

[31] "Korea's Five-Year Plan Highlights New Policies and Growth Prospects," *Business Asia* (Hong Kong: Business International Asia/Pacific, 29 August 1980), p. 274.

[32] *Ibid*.

[33] Shim Jae Hoon, "Chon's Dose of Purification," *Far Eastern Economic Review* (18 July 1980), p. 22.

[34] "South Korea's Generals Invent Merger by Decree," *The Economist* (6 September 1980), p. 67.

[35] *Ibid*., and "America's Big Mistake," second of two-part report on Korea by Philippe Pons, *Le Monde* (11 September 1980), reprinted in *Manchester Guardian Weekly* (5 October 1980), p. 14. The 1980 figures are from the Korean Embassy, Ottawa.

[36] Ron Richardson, "The Generals' Vision of Corporate Harmony," *Far Eastern Economic Review* (5 September 1980), pp. 56–58.

[37] "A Glamour Industry Turns Ugly," *The Economist* (6 September 1980), p. 68.

[38] An excellent analysis of Korea's overall political and economic outlook is contained in the report *Korea to 1986*, published by Business International Corporation of New York.

[39] Above data all from Korean Embassy, Ottawa, and Department of External Affairs, Korea section.

[40] *Energy Demand Projection and Energy Mix Scenario of Korea* (Seoul: Korea Energy Research Institute, 1980).

[41] *Ibid*.

[42] *Industry in Korea, 1980* (Seoul: The Korean Development Bank, 1980), pp. 46–53.

[43] *Ibid*., p. 51.

[44] *Ibid*., pp. 54–60, and conversations with staff members of Korea Development Institute.

[45] "Building Up the Industry the Army Way," *Far Eastern Economic Review* (30 May 1980), pp. 53–54.

[46] *Industry in Korea, 1980*, *op. cit*., pp. 111–18, reporting projections by the Ministry of Commerce and Industry and the Korea Automobile Industrial Cooperative.

[47] "The Western Automobile Industry at a Crossroads," *Transatlantic Perspectives* (a publication of the German Marshall Fund of the United States), Washington, January 1981, pp. 9–14.

[48] "Building Up the Industry the Army Way," *op. cit*.

[49] *Korea to 1986* (New York: Business International Corporation, 1980), p. 281.

[50] From discussions at Rural Economics Institute, Seoul.

[51] It bears repetition here that there has been some de-emphasis of the role of heavy industry in Korea of late, especially because of concern about the energy-intensive nature of so many of these activities. However, the stress on heavy industrial production will doubtless remain such as to distinguish Korean economic development and international trade from what we have reported in previous sections dealing with Hong Kong and Taiwan.

[52] Conversation with staff member of Canadian Institute of Steel Construction, Toronto.

[53] One may remark at this point that it has for some time been a goal of Korea's planners that the country would gain membership in the OECD during the mid-1980s. Less has been heard of that objective in the past few difficult years, but if it were in fact realised the question of continued provision of GSP treatment by Canada and other nations might come under closer scrutiny.

[54] *The Generalised System of Preferences and the Canadian General Preferential Tariff*, a background paper by G.H. Forrester and M.S. Islam (Ottawa: The Tariff Board, August 1979), p. 35.

[55] *Ibid*., p. 141.

[56] *Energy Demand Projection and Energy Mix Scenario*, *op. cit*.

[57] *Ibid*.

[58] *Korea to 1986*, *op. cit*., p. 275.

[59] *Ibid*., p. 276.

[60] "Agriculture in Korea," *Monthly Review*, No. 2, 1980, Korea Exchange Bank, February 1980, p. 1–10.

[61] Tabulations from Korean Development Institute, "Prospects," reproduced in *Korea to 1986*, *op. cit*.

[62] A series of memoranda put out by the Japan/Korea/Hong Kong desk of the U.S. Department of Commerce's Industry and Trade Administration lists what are considered likely to be the best prospects for U.S. manufactured goods exports to Korea over the period to 1983. This catalogue contains twelve main product areas involving over 300 individual items. The twelve categories are as follows, with the number of items in each case noted in parentheses: analytical and scientific instruments (31); computers and peripherals (11); construction machinery (26); electronics industry production and test equipment (15); food processing and packaging machinery (27); industrial controls (20); materials handling equipment (11); medical instruments and equipment (55); metalworking equipment (22); printing and graphic arts equipment (14); telecommunications equipment (38); textile machinery (37).

[63] The market for foreign capital projects world-wide has been estimated at US$80 billion a year, of which Canadian firms are at present accounting for about $1 billion. However, a recent survey by the Canadian Export Association indicated that its member companies were bidding on capital project business abroad worth Cdn$13.8 billion, which suggests that a marked increase in such activity may be in the offing. (Peter Cook, "The Export Record Is Not Bad and It Could Get Better," *Executive*, January 1981, p. 37).

Part Five

Summary and Conclusions

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Summary of the Findings

The Three Economies and Canada

Despite small domestic markets and sparse raw materials, Hong Kong, Taiwan, and Korea have evolved within a remarkably short time into dynamic manufacturing centres whose export-oriented industries have become the primary vehicle for their economic expansion. For the most part, the transformation in each case has been accomplished by combining relatively low-wage but industrious, well-educated labour forces with selected foreign technology, a process that has been predicated on easy access to foreign capital and foreign markets for their products. In the prosperous world-wide economic climate of the 1960s and early 1970s (and indeed throughout most of the global recession years thereafter), their output and trade grew, by any measure, very rapidly. These states steadily upgraded and diversified their output and were soon producing and exporting a variety of labour-intensive goods (and capital-intensive goods in the case of Korea and Taiwan) involving modern production systems and increasingly refined technology.

All three Asian states have experienced, within the space of a generation, a substantial qualitative increase in their standard of living, and each has been called, at one time or another, a "miracle economy." However, the favourable economic conditions that fostered past growth are now eroding. Since the mid-1970s, international demand has been falling, market protectionism has been rising, and energy has become the single most costly import item of these resource-deficient states. In addition, competition from countries with wage rates even lower than theirs is starting to threaten traditional labour-intensive exports. Being small, open economies heavily dependent on trade for survival, these states recognize that it is imperative for them to adapt with the utmost flexibility to the new international environment.

Borrowing heavily from the Japanese experience of economic adjustment, they have responded to the challenge of international change by (1) stabilizing their respective economies — especially reducing the level of inflation, (2) reducing dependence on imported oil, (3) rationalizing heavy industry, (4) upgrading the technological level of all industries, and (5) diversifying markets and products — a process intended to move all three Asian states out of "yesterday's" economy and into "tomorrow's." All of them envisage a future in which more skill and knowledge will be incorporated in much of their output, in which greater attention will be paid to styling and design, and in which superior technology will be involved both in the processes manufacturers employ and in the products they have to offer. For the most part, the importance of inexpensive clothing, footwear, and other simple consumer items in the industrial structure will be gradually reduced. They plan to manufacture sophisticated new products and achieve greater efficiency, higher quality, and better productivity in all export fields. They are moving into products that are not excessively protected and into markets where there is likely to be a strong demand for such goods. They view this shift into higher-value-added production as a method of accommodating a growing labour force and rising wage levels, while at the same time prolonging rapid economic growth.

From several perspectives it seems useful to make a distinction between Hong Kong and the other two states. With the aid of long-term economic development plans, Taiwan and Korea — particularly the latter — have sought for some years to develop heavy industry, including steel, shipbuilding, and the complex of activities grouped under "machinery." Now, however, some of these plans are being downgraded. The high cost of imported energy and extensive dependence on foreign materials has brought into question the feasibility of pursuing a number of planned heavy industrial programs. Projects that require large quantities of energy and that are unlikely to show much comparative advantage over the long term, such as petrochemicals and non-ferrous metals, are being scaled down or postponed indefinitely. Rationalization of heavy industry implies that, for some parts (but by no means all) of this sector, output in the future will be directed more towards meeting the needs of domestic consumers than of penetrating foreign markets. For Taiwan, the pressure to adjust, with the possible exception of petrochemicals, is not as severe as it is for Korea, which pursued aggressive expansion into several energy-using industries throughout the 1970s. However, for Korea a slower build-up of heavy industry will still be justified given the continuing competitive strengths of some activities, the large internal market, and the extensive preliminary investments that have been made.

Certainly, in light of the scarcity of natural resources but relative abundance of human capital, emphasis will continue to be placed on the long-term development of labour-absorbing industries, with particular attention to the fostering of higher-skill and technology-intensive fields. In view of these requirements, Taiwan and Korea have selected machinery and electronics for priority development in the 1980s. The goal with respect to the development of the machinery industry in both countries is to broaden their respective domestic manufacturing and export bases. Taiwan, for example, plans to quadruple the output of machinery products by the end of the 1980s, with production shifting from light industrial equipment to larger, more advanced industrial machinery and precision tools, a change that should enable manufacturers to sell their products to a much broader market. At the same time, this development of machinery production is designed to form both forward and backward linkages and thereby spur growth of allied industries.

The electronics industry, a star performer throughout the 1970s, has also been targeted for special consideration. This industry has solid growth potential through the 1980s, especially as the emphasis alters from manufacture of relatively simple consumer electronics to top-range consumer products, electronic office equipment, and simple computers. Electronics/electrical production, which already accounts for over 10 per cent of Taiwan's GNP and slightly less than 10 per cent of Korea's, has become one of the largest employers within their respective economies. Taiwan's electronics industry, already more advanced than Korea's, will likely overtake textiles to become that country's biggest exporter in the 1980s.

Hong Kong, like Taiwan and Korea, is also diversifying its manufacturing base. It is trading up into more elaborate lines and is attempting to establish a reputation for high-quality products. The extent to which Hong Kong can diversify has, however, been constrained by the virtual absence of all domestic raw materials and the shortage and therefore high cost of land. As a consequence, Hong Kong must develop in a manner somewhat different from Korea and Taiwan. The colony's manufacturing sector must continue to diversify within existing broadly established product groups. Its industrial base is too narrow to support extensive development of most large engineering industries, and adjustment will therefore take place mainly within existing textile and consumer electronics industries. Hong Kong has already become something of a clothing fashion centre, but at the same time it may continue to hold a competitive position in lower-priced apparel through making use of Chinese labour in the special economic zones immediately outside its border to the north. Because of its rather limited scope for industrial diversification, Hong Kong will become more of a market for Taiwanese and Korean products than a competitor. Nevertheless, its close proximity and special cross-border investment relations with China, along with its excellent banking, shipping, and warehousing facilities, should enable it to hold top spot as the region's most important service centre.

Asia watchers, including bankers, traders, and investors, generally view the prospects of these three Asian states with optimisim, some even talking about a second economic miracle, although admittedly one that would be less pronounced than the first. Nevertheless, there seems to be general agreement that their economic success during the 1980s will depend critically on their ability to stabilize their respective internal economies, mobilizing resources in priority sectors, and benefiting from an improved world trading environment. With respect to the former, Taiwan is likely to show the smoothest adjustment among the three states. Taiwan's economic base is much broader than Hong Kong's, and, unlike its arch rival, Korea, it has avoided the over-heating problems and lopsided distribution of resources that accompanied excessive investment in large and expensive heavy industry. With its fiscally sound, sectorally balanced economy, Taiwan has become the most competitive source among the three Asian states with the widest range of light industrial products. On the question of an improved trading environment, all three Asian states could find it increasingly difficult to raise their respective levels of trade throughout the 1980s. Clearly, unrestricted access of major exports to the key markets of North America, Western Europe, and Japan is not assured. There is mounting pressure from uncompetitive manufacturers in the industrialized nations to reduce the growth of labour-intensive imports from less developed countries. Moreover, as the newly emerging industrial states move into production of more sophisticated products, they will face stiff competition from advanced countries that already have a proven track record and well-established markets for many of the higher-value-added goods that the newcomers wish to produce. They will also find themselves vying with Japanese manufacturers for a share of these import markets.

Costs and Benefits

For Canada, the challenges that will be presented in our home market from an increasing variety of Hong Kong, Taiwanese, and Korean goods, many of them of high quality and technical superiority, cannot be ignored. Nor will it be sensible to try to protect domestic manufacturers from such competition, except in a very modest and temporary way that genuinely recognizes the essential need to face inevitable changes in the structure of international production and trade.

In this study the main directions in which the economies of Korea, Taiwan, and Hong Kong seem likely to evolve have been indicated. In many respects they will tend to become, over the next two decades, "the new Japans" — producers for export of a range of manufactured goods, from cars to cameras, from power generators to pocket calculators, from ships to silverware, broadly similar to that in which

Japan has been so successful in recent times. Much of this output will compete in world markets more with existing Japanese goods than with the manufactures of local industry. For example, in Canada we may find that products bearing Conic, Tatung, or Hyundai labels will begin to replace those made by Mitsubishi or Sony rather than ones of domestic origin. But of course that will not always be the case, and Canadian firms and their workers will have to face direct offshore competition in many sectors. This sustained competition will tax to the utmost Canadian capacity to improve efficiency and to appeal to consumers with attractive, durable, easily maintained goods.

In some instances the new competition may be fatal to certain Canadian product lines, whole plants, or occasionally entire firms and industrial sectors. That is the nature of the enterprise system, and there is no reason to believe that such failures will not be offset by comparable improvements in Canada's position elsewhere in the industrial spectrum. Contrary to the impression sometimes given, over the past fifteen years, at least, Canadian factory shipments have almost exactly matched in value the total consumption of manufactured goods by Canadians. That is, although the penetration of our market by foreign goods increased continuously from 20 per cent in the mid-1960s to around 30 per cent today, our manufacturers enjoyed similar growth in their penetration of markets abroad. Thus Canada's "implied self-sufficiency" remained virtually unchanged throughout the period at approximately 100 per cent.[1]

Naturally, while this is true in total, there have been net losses in some product categories and net gains in others, so that adjustments have had to occur in the structure of output and sometimes in the employment concerned. As a general rule, such adjustments should not cause long-term difficulty unless the opportunities to Canadians offered by the "gainers" call for entirely different kinds of labour and other resources from those used by the "losers," and in particular if the new jobs arise in different parts of the country. It should be noted that, up to now, the major impact of imports from Hong Kong, Taiwan, and Korea has been mainly felt by industries in Quebec. It is true that more than half the footwear industry is centred in Ontario and a large proportion of both the clothing and textiles industries, about one third, is located in that province. Clothing production is also an important activity in Manitoba. In many ways, however, the detrimental effects for such industries have been most particularly felt in Quebec because they are spatially concentrated in a few areas — for example, clothing in Montreal and textiles in the Eastern Townships. By comparison these activities are more widely scattered throughout Ontario, and adjustments in the face of import competition have not caused localized income and employment set-backs to the same degree as in Quebec.

On the export side, most Canadian exports of manufactured products bound for Hong Kong, Taiwan, and Korea have originated in Ontario. As the three states shift to higher-quality and more technically sophisticated products, they will become progressively more able to manufacture for themselves some of the goods now imported from Ontario and simultaneously will meet Ontario products on a competitive basis in third markets such as the United States, Europe, and Asia. On the other hand, they will provide markets for specialized items of wide variety, comparable to those already sold by Ontario in advanced industrial nations. In a few years, it may be more difficult to judge whether Ontario is a "winner" in overall commerce with the three states, but certainly to retain any comparative advantage both Ontario and Quebec will have to make some adjustments to their industrial bases, beyond what has already occurred in the face of American, European, and Japanese product competition. The required tempo of these adjustments could very well mount during the latter half of the 1980s.

Nevertheless, if the past decade and a half of extensive import challenge is any guide, Canada will experience further penetration of the home market by goods from these and other sources but will compensate with enlarged export markets for its own manufactured products. Whatever special expedients may be felt necessary to protect certain especially vulnerable industries from foreign competition, their target will increasingly not be the three countries with which this study has been concerned but others just beginning to enter the ranks of manufactured-goods exporters.

Meanwhile, Canada's producers of agricultural products, metallic minerals, and energy hydrocarbons (especially coal) will find expanding markets for their commodities in Korea, Taiwan, and even Hong Kong. Thus the western provinces have nothing much to lose from mounting imports from the three states, whose capacity to buy food, metals, and energy will obviously improve, as income rises, thereby offering these provinces ever greater export opportunities.

There is one final point concerning Canada's import policy *vis-à-vis* the "Little Dragons." As the economies of Hong Kong and Korea grow and mature, it is likely that pressures will increase in Canada (as in other industrialized nations) for their "graduation" from the developing-country category and a modification of the preferential tariffs now accorded them under the Generalized System of Preferences (GSP). Taiwan does not enjoy the GSP in Canada due to its lack of diplomatic recognition, but it does receive "most-favoured-nation" (MFN) treatment at the Canadian border.[2] Graduation for Hong Kong and Korea from the GSP would mean, in principle, that preferential margins would be narrowed and eventually might disappear, so that they would have normal MFN status in the

Canadian market. However, if such a process were to entail actually increasing tariffs on the exports of these states, it could lead to some backlash, possibly impairing Canadian export sales, especially on large-scale government-to-government deals like the CANDU to Korea. Accordingly, it seems desirable to approach the question of graduation within a framework of negotiations aimed at tariff treatment acceptable to both sides.

The Performance in Trade

The story of vigorous and innovative industrial development in these countries, as highlighted in the preceding pages, has obvious ramifications for both Canadian export and import trade. As the data on recent years' trade between Canada and the three countries make clear, there is a more fluid situation on the export side, particularly in the cases of Taiwan and Korea, than there is on that of imports. The main sections of this study dealing with each individual country have suggested where Canadian export opportunities will be greatest. It may be useful now to examine any systematic peculiarities in the export performance to see if special policy initiatives of some sort are indicated to improve Canada's showing in these markets.

Above all, the statistics reveal a level of export trade that appears altogether too low, except perhaps in the case of sales to Korea. Although there is no way of judging what is the "right" level for one country's trade with another (and bilateral balance certainly has no merit in itself), it seems plausible that Canada should be able to sell more to Hong Kong and Taiwan than it currently does, as well as to maintain at least its present export rate with respect to Korea. One measure of Canadian shortcomings in this regard is a comparison with Australian exports to the group — roughly double Canada's in the case of Hong Kong and Taiwan, and 50 per cent higher in the case of Korea. These results seem to be out of line with the resource bases and industrial capacities of the two countries.[3]

So far as one can see, a major source of weakness in Canadian exports to these three areas is a lack of familiarity with them among Canadian businessmen and traders. Canada's economic orientation has traditionally been towards the United States first, Britain and other parts of Western Europe second, and then perhaps the West Indies and some few areas of Latin America as a distant third. Asia has entered the consciousness of our business leaders only relatively recently, and this almost entirely because of the explosive growth in the economy of Japan. While the potential of other fast-growing Asian markets is now beginning to be appreciated, it does not appear to have been widely enough recognized to create a really extensive readiness to invest time and energy in the exploration of markets. There is thus a continuing need for publicity and dissemination of information among the Canadian business community about these market opportunities and about what the government can do to assist exporters.

Beyond the inadequate overall performance of Canadian exporters in the three countries, there is something to be said about the structure of the trade in each case. As to Hong Kong, Canada's exports are rather lighter than is typical of our foreign sales in the broad category of crude materials but heavier than average in fabricated (or partially finished) products. Since Hong Kong is a secondary manufacturing and service-producing economy without the land for basic industries using foreign raw materials, that pattern seems unsurprising — and in any case is not likely to bother Canadians. With respect to Korea, the structure of our exports is approximately similar to what is normal in Canada's trade, save for some weakness in regard to sales of agricultural commodities. That latter feature is in large measure related to Korea's decidely protectionist farm policies, which both derive from and help to perpetuate inefficiencies in the rural sector. One would hope that in time these policies will change, as the Koreans now intend that they should. But an improvement on that score will be relatively slow in coming.

The most striking phenomenon in the structure of Canadian exports to the three is, however, the exceedingly heavy concentration in our sales to Taiwan of crude materials and the extreme weakness in our shipments to that market of end products. In both 1979 and 1980 almost one half of Canada's total exports to Taiwan were industrial raw materials and only about one twentieth were finished manufactures, a mix entirely different from Canada's global export pattern and markedly dissimilar from that of the other two trading partners dealt with here. It is hard to believe that this peculiarity is unrelated to the absence of any official Canadian commercial representation in Taipei. With such a presence, Canada could undertake continuing and detailed surveillance of Taiwanese import requirements and maintain active contact with Canadian industry, as is generally more necessary in the case of manufactured goods than it is in that of basic industrial commodities and foodstuffs.

No one can expect a speedy resolution of the problem inherent in the relationship between the People's Republic of China and the Republic of China (Taiwan), which has led, over a protracted process of diplomatic change, to withdrawal of official recognition of Taiwan by many governments, including the Canadian government. Accordingly, it is unreasonable to expect that a Canadian trade commission will be opened in Taipei within the foreseeable future. But the business communities of most of the principal trading nations have contrived devices for establishing an unofficial presence on the island, usually through the initiative of a national board of trade or business association that is representative of a broad enough constituency to carry out some of the more important functions of government commercial attachés.[4] Thus it is to be hoped that the Canadian Chamber of Commerce, which is becoming increasingly effective in the promotion of economic relations between Canada and other countries, will succeed in its present efforts to set up an office in Taipei with appropriate staff and facilities. Such a "foot in the Taiwanese door" would serve to place Canada's business interests in a better position *vis-à-vis* the American, British, French, German, Japanese, Australian, and other competition already sited to monitor directly the island's many sales opportunities. Given that Ottawa does not oppose private efforts along such lines, which are seen as in no way conflicting with Canada's determination to foster amicable and mutually beneficial liaison with the People's Republic, a reasonably rapid completion of these arrangements may now be in prospect.

Opportunities for More Investment

Virtually all the foregoing analysis concerning export trade applies equally to Canadian direct investment in Hong Kong, Taiwan, and Korea. There is, in fact, very little such investment — a small (though expanding) presence in Hong Kong, only a few enterprises (but likewise increasing) in Korea, and practically nothing in Taiwan. These statistics are surprising given the fact that Canada has become a significant source of foreign direct investment. By the mid-1970s, for example, the accumulated value of Canadian direct investments abroad was over Cdn$10 billion, of which $2.5 billion was in the Third World — mainly in Latin America and the Caribbean but to a growing extent in developing Asia.[5] In terms of flows of capital for direct investment in developing countries, Canada at that time was ranked about sixth largest in the world (after the United States, Germany, Japan, Britain, and France), or seventh when the amounts are calculated as proportions of source nations' GNP. It would seem, therefore, that if the Canadian investment role in Hong Kong, Taiwan, and Korea is relatively weak, that is again because of a lack of familiarity with these countries that government and relevant business organizations should seek to make good.[6]

Conclusion

There is much evidence to suggest that the world is about to embark on yet another major new stage in economic evolution: a diffusion among many new countries, until now classed as poor and underdeveloped, of the capability to produce and export manufactured goods. Among these countries may be Mexico, Brazil, Colombia, Peru, Egypt, Turkey, Pakistan, Thailand, the Philippines, and Malaysia, to say nothing of India and even China.[7] Such a prospect could represent an enormous challenge to the developed countries, especially those with modest industrial sectors such as Canada. Some commentators have suggested that societies like ours must change to a "post-industrial" role, such factories as we retain being left almost wholly in the care of computer-controlled robot machines while all but a handful of workers give up manufacture entirely in favour of "knowledge industries." Certain futurists, indeed, believe that the nature of employment and its organization between home and the work place will be subject to even more fundamental transformation.[8]

Be that as it may, little doubt can remain that the three countries covered in this study are in the forefront of a new wave of industrialization destined eventually to touch much of the globe. It may take ten or twenty years or significantly longer before the larger group of newcomers begins to impinge on the international economic system, but sooner or later that will happen. Somehow Canadians and others in the developed world will have to come to grips with the challenge.

Whatever the precise nature and timing of the forthcoming developments proves to be, Canada must face up to the need for gradual but not tardy restructuring of its economy so that we can withstand — if not welcome — the shipment to our shores of inexpensive mass-produced goods, while our own labour force engages in activities relevant to the new markets opening up overseas. One might well argue that we are lucky to be able to attempt the beginnings of such a transition now, in response to the difficulties and opportunities posed by three rather small trade competitors, since it will help to prepare us for the much greater adjustments we and subsequent generations of Canadians must undergo in years to come.

Notes

[1] *Manufacturing Trade and Measures, 1966–1981* (Ottawa: Department of Industry, Trade and Commerce, July 1982). These trade performance data will be examined in a forthcoming report on industrial policy by the Economic Council of Canada.

[2] Taiwan's most-favoured-nation status occurs because Canada grants such status, by bilateral agreement, to the People's Republic of China, of which Taiwan is regarded as a province.

[3] One common reaction to these sorts of comparisons is that Australia is geographically much nearer to the Orient than Canada is. Yet while certainly the northern Australian "outback" is fairly close to southeast Asia, the distance between more populated southern regions of Australia and such markets as Korea and Japan is almost the same as that between Vancouver and the Far East.

[4] The latest example of such an initiative was the recent establishment of an office in Taipei by a group representative of the Australian business community.

[5] Steven W. Langdon, *Canadian Private Direct Investment and Technology Marketing in Developing Countries*, a study prepared for the Economic Council of Canada (Ottawa: Minister of Supply and Services Canada, 1980), p. 11.

[6] A valuable source of information for investors is *World Sourcing Sites: Manufacturing Costs and Conditions in Hong Kong, Korea, Singapore, and Taiwan* (Hong Kong: Business International Asia/Pacific, 1979).

[7] But there are certainly many factors inhibiting the spread of effective industrial performance, in the near term, much beyond the present group of industrializing states (of which the three dealt with in this study are so far the leaders). See Neil McMullen and staff of the National Planning Association, Washington, *The Newly Industrializing Countries: Adjusting to Success* (London, Washington, and Montreal: British-North American Committee, 1982).

[8] For example, Alvin Toffler, *The Third Wave* (New York: Morrow, 1980).

Appendices

Appendix 1

Tables

Table A.1
FOREIGN TRADE OF HONG KONG, 1960–1981

	Domestic Exports		Re-exports		Imports		Balance
	US$ Mln.	% Change	US$ Mln.	% Change	US$ Mln.	% Change	US$ Mln.
1960	503	+25.6	188	+ 7.5	1 029	+18.5	– 338
1961	515	+ 2.3	174	– 7.5	1 046	+ 1.6	– 357
1962	582	+13.1	188	+ 8.1	1 168	+11.7	– 398
1963	671	+15.3	203	+ 8.3	1 298	+11.2	– 424
1964	773	+15.2	237	+16.5	1 492	+15.0	– 483
1965	879	+13.7	263	+11.0	1 567	+ 5.0	– 426
1966	1 000	+13.8	320	+21.7	1 762	+12.4	– 442
1967	1 165	+16.5	362	+13.1	1 817	+ 3.1	– 290
1968	1 391	+19.4	354	– 2.3	2 058	+13.3	– 314
1969	1 736	+24.8	442	+25.1	2 458	+19.4	– 280
1970	2 038	+17.4	447	+ 1.2	2 906	+18.2	– 421
1971	2 273	+11.5	564	+26.2	3 348	+15.2	– 511
1972	2 713	+19.4	739	+31.0	3 873	+15.7	– 421
1973	3 789	+39.7	1 270	+71.7	5 643	+45.7	– 585
1974	4 528	+19.5	1 408	+10.9	6 743	+19.5	– 807
1975	4 637	+ 2.4	1 414	+ 0.5	6 790	+ 0.7	– 738
1976	6 645	+43.3	1 818	+28.6	8 817	+29.9	– 354
1977	7 512	+13.0	2 109	+16.0	10 451	+18.5	– 830
1978	8 699	+15.8	2 820	+33.7	13 474	+28.9	–1 955
1979	11 182	+28.6	4 004	+42.0	17 167	+27.4	–1 981
1980	13 689	+22.4	6 039	+50.8	22 420	+30.6	–2 692
1981	16 149	+18.0	8 381	+38.8	27 786	+23.9	–3 256

Sources: *Hong Kong Review of Overseas Trade in 1980* (Hong Kong: Census and Statistics Department, 1981), p. 4; and *Hong Kong 1982* (Hong Kong: Government Printer, 1982), p. 22. Original data in Hong Kong dollars; translated into U.S. dollars at average annual exchange rates for respective years.

Table A.2
FOREIGN TRADE OF TAIWAN, 1960–1981

	Exports		Imports		Balance
	US$ Mln.	% Change	US$ Mln.	% Change	US$ Mln.
1960	164	+ 4.5	297	+28.6	− 133
1961	195	+18.9	322	+ 8.4	− 127
1962	218	+11.8	304	− 5.6	− 86
1963	332	+52.3	362	+19.1	− 30
1964	433	+30.4	428	+18.2	+ 5
1965	450	+ 3.9	556	+29.9	− 106
1966	536	+19.1	622	+11.9	− 86
1967	641	+19.6	806	+29.6	− 165
1968	789	+23.1	903	+12.0	− 114
1969	1 049	+33.0	1 213	+34.3	− 164
1970	1 481	+41.2	1 524	+25.6	− 43
1971	2 060	+39.1	1 844	+21.0	+ 216
1972	2 988	+45.0	2 514	+36.3	+ 474
1973	4 483	+50.0	3 792	+50.8	+ 691
1974	5 639	+25.8	6 966	+83.7	−1 327
1975	5 309	− 5.9	5 952	−14.6	− 643
1976	8 166	+53.8	7 599	+27.7	+ 567
1977	9 361	+14.6	8 511	+12.0	+ 850
1978	12 687	+35.5	11 027	+29.6	+1 660
1979	16 103	+26.9	14 774	+34.0	+1 329
1980	19 811	+23.0	19 733	+33.6	+ 78
1981	22 607	+14.1	21 194	+ 7.4	+1 413

Sources: *Taiwan Statistical Data Book 1980* (Taipei: Council for Economic Planning and Development, 1980) p. 183; and *Taiwan: A Guide for Canadian Business* (Ottawa: Canadian Chamber of Commerce, 1982), p. 15.

Table A.3
FOREIGN TRADE OF KOREA, 1962–1981

	Exports		Imports		Balance
	US$ Mln.	% Change	US$ Mln.	% Change	US$ Mln.
1962	54.8	+34.4	421.8	+33.4	− 367.0
1963	86.8	+58.4	560.3	+32.8	− 473.5
1964	119.1	+37.2	404.4	−27.8	− 285.3
1965	175.1	+47.0	463.4	+14.6	− 288.3
1966	250.3	+42.9	716.4	+54.6	− 466.1
1967	320.2	+27.9	996.2	+39.1	− 676.0
1968	455.4	+42.2	1 462.9	+46.8	−1 007.5
1969	622.5	+36.7	1 823.6	+24.7	−1 201.1
1970	835.2	+34.2	1 984.0	+ 8.8	−1 148.8
1971	1 067.6	+27.8	2 394.3	+20.7	−1 326.7
1972	1 624.1	+52.1	2 522.0	+ 5.3	− 897.9
1973	3 225.0	+98.6	4 240.3	+68.1	−1 015.3
1974	4 460.4	+38.3	6 851.8	+61.6	−2 391.5
1975	5 081.0	+13.9	7 274.4	+ 6.2	−2 193.4
1976	7 715.1	+51.8	8 773.6	+20.6	−1 058.3
1977	10 046.5	+30.2	10 810.5	+23.2	− 764.0
1978	12 710.6	+26.5	14 971.9	+38.5	−2 261.3
1979	15 055.5	+18.4	20 338.6	+35.8	−5 283.2
1980	17 504.9	+16.3	22 291.7	+ 9.6	−4 786.8
1981	21 278.0	+21.6	26 134.0	+17.2	−4 856.0

Source: Monthly Economic Statistics (Seoul: Bank of Korea, various issues).

Table A.4
CANADIAN IMPORTS FROM HONG KONG, TAIWAN, AND KOREA, 1971–1982
Showing Year-by-Year Change and Comparison With Total Canadian Imports

	Hong Kong			Taiwan			Korea			Annual Change in Total Canadian Imports (%)
	$000	Annual Change	% of All Imports	$000	Annual Change	% of All Imports	$000	Annual Change	% of All Imports	
1971	80 188	+ 2.2	0.51	80 706	+55.4	0.52	19 420	+ 33.3	0.12	+11.9
1972	104 970	+30.9	0.56	126 186	+56.4	0.68	43 728	+125.2	0.23	+19.5
1973	109 939	+ 4.7	0.47	163 763	+29.8	0.70	90 564	+107.1	0.39	+24.9
1974	134 816	+22.6	0.43	193 758	+18.3	0.61	135 044	+ 49.1	0.43	+35.9
1975	170 786	+26.7	0.49	181 904	− 6.1	0.52	166 139	+ 23.0	0.48	+ 9.5
1976	284 401	+66.5	0.76	292 540	+60.8	0.78	304 022	+ 83.0	0.81	+ 7.9
1977	280 422	− 1.4	0.66	320 700	+ 9.6	0.76	322 724	+ 6.2	0.76	+13.1
1978	331 836	+18.3	0.66	397 186	+23.8	0.79	362 991	+ 12.5	0.72	+18.4
1979	427 084	+28.7	0.68	522 003	+31.4	0.83	462 864	+ 27.5	0.74	+25.2
1980	574 372	+34.5	0.83	557 301	+ 6.8	0.81	414 116	− 10.5	0.60	+10.0
1981	674 535	+17.4	0.85	729 194	+30.8	0.92	608 183	+ 46.9	0.77	+14.5
1982p	668 839	− 0.8	0.99	661 215	− 9.3	0.98	586 335	− 3.6	0.87	−14.5

Source: *Imports by Countries* **(Ottawa: Statistics Canada, various issues).**

Table A.5

CANADIAN EXPORTS TO HONG KONG, TAIWAN, AND KOREA, 1971–1982

Showing Year-by-Year Change and Comparison With Total Canadian Exports

	Hong Kong			Taiwan			Korea			Annual Change in Total Canadian Exports (%)
	$000	Annual Change	% of All Imports	$000	Annual Change	% of All Imports	$000	Annual Change	% of All Imports	
1971	20 028	− 3.5	0.12	13 947	− 23.8	0.08	23 262	+23.7	0.13	+ 5.5
1972	21 094	+ 5.3	0.11	24 476	+ 75.5	0.12	32 882	+41.4	0.17	+13.0
1973	28 001	+32.7	0.11	33 818	+ 38.2	0.14	62 450	+89.9	0.25	+26.3
1974	40 228	+43.7	0.13	41 644	+ 23.1	0.13	71 530	+14.5	0.23	+27.5
1975	42 396	+ 5.4	0.13	38 062	− 8.6	0.12	79 278	+10.8	0.24	+ 2.5
1976	59 182	+39.6	0.16	42 672	+ 12.1	0.11	116 744	+47.3	0.31	+15.7
1977	67 004	+13.2	0.15	73 269	+ 71.7	0.17	143 843	+23.2	0.33	+16.3
1978	98 030	+46.3	0.19	102 005	+ 39.2	0.20	216 345	+50.4	0.41	+19.6
1979	137 417	+40.2	0.21	103 695	+ 1.7	0.16	364 300	+68.4	0.57	+22.8
1980	192 875	+40.4	0.26	251 060	+142.1	0.34	504 086	+38.4	0.68	+15.6
1981	184 085	− 4.5	0.23	232 826	− 7.3	0.29	444 828	−11.8	0.55	+ 9.4
1982p	242 597	+31.8	0.30	292 137	+ 25.5	0.36	487 845	+ 9.7	0.60	+ 0.6

Source: Exports by Countries (Ottawa: Statistics Canada, various issues).

Appendix 2

Useful Contacts for Canadians Wishing to Do Business With the Three Countries

HONG KONG

- Hong Kong Trade Development Council,
  347 Bay Street,
  Toronto, Ontario.
  M5H 2R7
  (416) 366-3594
- British High Commission,
  Commercial Section,
  80 Elgin Street,
  Ottawa, Ontario.
  K1P 5K7
  (613) 237-1530
- Any Consulate or Consulate General
  of Britain in Canada
- Hong Kong Bank of Canada,
  P.O. Box 412,
  Exchange Tower,
  First Canadian Place, Suite 2240,
  Toronto, Ontario.
  M5X 1E5
  (416) 868-0050
- Department of External Affairs,
  (Trade Division),
  Bureau of Pacific, Asian, African
  and Middle Eastern Affairs,
  Asia Section,
  Ottawa, Ontario.
  K1A 0H5
  (613) 996-9195
- Department of External Affairs,
  (Political Division),
  Bureau of Asian and Pacific Affairs,
  China, Hong Kong, Macao Section,
  Ottawa, Ontario.
  K1A 0G2
  (613) 996-1989

TAIWAN

- **Far Eastern Trading Company Ltd.,**
  P.O. Box 349,
  Place Bonaventure,
  Montreal, Quebec.
  H5A 1B5 (514) 866-0598

- **Far East Trade Service, Inc.,**
  P.O. Box 644, Station F,
  Toronto, Ontario.
  M4Y 2N6 (416) 922-2412

- **FETS Correspondent in Vancouver,**
  P.O. Box 35365, Station E,
  Vancouver, B.C.
  V6M 4G5 (604) 263-7860

- **Canadian Chamber of Commerce,**
  200 Elgin Street, 3rd Floor,
  Ottawa, Ontario.
  K2P 2J7 (613) 238-4000

- **Canadian Chamber of Commerce,**
  P.O. Box 63,
  First Canadian Place,
  Toronto, Ontario.
  M5X 1B1 (416) 868-6415

KOREA

- **Embassy of the Republic of Korea,**
  151 Slater Street,
  Ottawa, Ontario.
  K1P 5H3 (613) 232-1751

- **Any Consulate or Consulate General of the Republic of Korea in Canada.**

- **Korea Trade Centre,**
  10 Elgin Mart East,
  Place Bonaventure,
  Montreal, Quebec.
  H5A 1C6 (514) 878-3425

- **Korea Trade Centre,**
  P.O. Box 28,
  Eaton Centre,
  20 Queen Street, Suite 2802,
  Toronto, Ontario.
  M5H 3R3 (416) 977-8784

- Korea Trade Centre,
  1 Bentall Centre, Suite 960,
  505 Burrard Street,
  Vancouver, B.C.
  V7X 1M4
  (604) 683-1820
- Korea Exchange Bank,
  P.O. Box 402,
  Exchange Tower,
  First Canadian Place, Suite 1140,
  Toronto, Ontario.
  M5X 1E3
  (416) 364-2890
- Hanil Bank of Canada,
  P.O. Box 262,
  1 First Canadian Place, Suite 6960,
  Toronto, Ontario.
  M5X 1C9
  (416) 865-0456
- Canada-Korea Business Council,
  c/o Canadian Export Association,
  99 Bank Street, Suite 250,
  Ottawa, Ontario.
  K1P 6B9
  (613) 238-8888
- Department of External Affairs,
  (Trade Division),
  Bureau of Pacific, Asian, African
  and Middle Eastern Affairs,
  Asia Section,
  Ottawa, Ontario.
  K1A 0H5
  (613) 996-9195
- Department of External Affairs,
  (Political Division),
  Bureau of Asian and Pacific Affairs,
  Korea Section,
  Ottawa, Ontario.
  K1A 0G2
  (613) 995-7575
- Offices are also maintained in Canada by important Korean concerns like Hyundai, Daewoo, Samsung, etc.

Appendix 3

Useful Sources of Information on the Three Countries

ALL THREE

- Business International Asia/Pacific Ltd.,
  Asian House, One Hennessy Road,
  P.O. Box 385,
  Hong Kong.
  A client-membership organization.

  Publishes weekly *Business Asia* and has done special reports including major studies of Korea and Taiwan (in preparation), and the very useful *World Sourcing Sites: Manufacturing Costs and Conditions in Hong Kong, Korea, Singapore, and Taiwan.* (BI's Head Office is in New York.)

- The Asian Letter Ltd.,
  Box 33477,
  Sheungwan Post Office,
  Hong Kong.
  A subscription service.

  Publishes weekly *The Asia Letter* and other material.

- Far Eastern Economic Review Ltd.,
  GPO Box 160,
  Hong Kong.

  Publishes weekly magazine *Far Eastern Economic Review* and annual yearbook.

- Modern Asia,
  GPO Box 9765,
  Hong Kong.

  Publishes monthly magazine *Modern Asia.*

- The Asian Wall Street Journal,
  Dow-Jones and Company Inc.,
  22 Cortlandt Street,
  New York, N.Y. 10007, U.S.A.

  This authoritative daily (with a weekly review) is largely produced in Hong Kong.

- There are numerous other sources of information on Asian affairs, mostly published in Hong Kong. (Note reference to Hongkong and Shanghai Banking Corporation below.)

HONG KONG

- The Hong Kong General Chamber of Commerce,
  P.O. Box 852,
  Hong Kong.

  Issues periodic *HK Trade Statistics* and other material.

- The Hongkong and Shanghai Banking Corporation,
  1 Queen's Road Central,
  Hong Kong.

  Issues *Hong Kong Quarterly Economic Report* and a number of other useful publications, including the "Business Profile Series" on Hong Kong and almost twenty other Asian economies.

- Also the Government Information Services, Government Printer, Hong Kong, for official publications, the "Business Standard" section of *Hong Kong Standard* newspaper for daily business news, the *South China Morning Post* for general news, etc.

TAIWAN

- Government Information Office,
  3 Chung Hsiao East Road, Section 1,
  Taipei 100, Taiwan, R.O.C.

  For information of all kinds on the Taiwan economy and society generally.

- China Economic News Service,
  186 Keelung Road, Section 1, 7th floor,
  Taipei, Taiwan, R.O.C.

  Publishes weekly newspaper *The Economic News* (which it is anxious to make available to interested Canadians), as well as other business-oriented journals.

- Trade Winds Inc.,
  P.O. Box 7-179,
  Taipei, Taiwan, R.O.C.

  Publishes weekly newspaper (mainly catalogue of Taiwanese products) *Trade Winds*.

- Also China External Trade Development Council
  (201 Tunhwa North Road, Taipei 105, Taiwan, R.O.C.)
  for trade affairs and other trade-related questions,
  Industrial Development and Investment Center
  (66 Sungchiang Road, 6th floor, Taipei, Taiwan, R.O.C.)
  for investment information, etc.
  (But these may be approached through Far East Trade Service offices in Canada: see "Useful Contacts" list in Appendix 2.)

KOREA

- Korea Traders Association,
  460 Park Avenue, Suite 555,
  New York, N.Y. 10022, U.S.A.

  Publishes weekly *Korean Trade News*.

- The Korea Times,
  14 Chunhak-dong,
  Chongno-gu,
  Seoul 110, Republic of Korea.

  A daily newspaper, *The Korea News* has extensive economic and business coverage as well as general news.

- Another English-language Korean newspaper is *The Korea Herald*.
- There is less need of special sources of information on Korea than in the other two cases because of the full diplomatic and official commercial links through Canadian and Korean embassies, consulates, etc., in each others' countries. (Taiwan has none of this, while Hong Kong's colonial status causes its representation in Canada to be somewhat meagre.)

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